

Pediapharm Inc.

Consolidated Financial Statements
March 31, 2015 and 2014
(expressed in Canadian dollars)

July 20, 2015

Independent Auditor's Report

To the Shareholders of Pediapharm Inc.

We have audited the accompanying consolidated financial statements of Pediapharm Inc., which comprise the consolidated statements of financial position as at March 31, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended March 31, 2015 and the 15-month period ended March 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pediapharm Inc. as at March 31, 2015 and 2014 and its financial performance and its cash flows for the year ended March 31, 2015 and the 15-month period ended March 31, 2014 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A111799

Pediapharm Inc.

Consolidated Statements of Financial Position As at March 31, 2015 and 2014

(expressed in Canadian dollars)

	Note	2015 \$	2014 \$
Assets			
Current assets			
Cash and cash equivalents		6,798,770	7,092,224
Accounts receivable	4	300,886	427,727
Prepaid expenses		135,079	55,376
Inventories	2	369,752	348,144
		<u>7,604,487</u>	<u>7,923,471</u>
Property and equipment	5	59,045	22,504
Intangible assets	6	<u>1,408,758</u>	<u>651,200</u>
		<u>9,072,290</u>	<u>8,597,175</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	994,723	1,100,315
Deferred revenue		-	264,327
Current portion of long-term debt	9	<u>4,313</u>	<u>6,892</u>
		999,036	1,371,534
Long-term debt	9	380	4,693
Convertible debentures	8	<u>3,582,766</u>	<u>-</u>
		<u>4,582,182</u>	<u>1,376,227</u>
Shareholders' Equity	11		
Share capital		20,779,567	20,779,567
Contributed surplus		3,171,121	903,012
Deficit		<u>(19,460,580)</u>	<u>(14,461,631)</u>
		<u>4,490,108</u>	<u>7,220,948</u>
		<u>9,072,290</u>	<u>8,597,175</u>

Approved by the Board of Directors on July 20, 2015

(Sylvain Chretien)

Director

(Normand Chartrand)

Director

Sylvain Chretien

Normand Chartrand

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

Pediapharm Inc.

Consolidated Statements of Comprehensive Loss

(expressed in Canadian dollars)

	Note	For the year ended March 31, 2015 \$	For the 15-month period ended March 31, 2014 \$
Revenue			
Products		2,496,828	1,795,058
Commissions		571,855	2,886,718
		<u>3,068,683</u>	<u>4,681,776</u>
Expenses (income)			
Selling and administrative	10, 14, 17	8,101,834	6,216,605
Finance costs (income)	13	-	434,879
Foreign exchange losses		15,025	21,854
Interest income		(49,227)	(29,421)
Stock exchange listing expense	3, 11	-	2,117,492
		<u>8,067,632</u>	<u>8,761,409</u>
Loss and comprehensive loss		<u>(4,998,949)</u>	<u>(4,079,633)</u>
Loss per share from continuing operations attributable to equity holders of the Company			
Basic and diluted		<u>(0.07)</u>	<u>(0.17)</u>
Weighted average number of common shares outstanding		<u>72,055,856</u>	<u>23,709,667</u>

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

Pediapharm Inc.

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Note	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance – January 1, 2013		1,000	815,430	(10,186,180)	(9,369,750)
Loss and comprehensive loss for the period		-	-	(4,079,633)	(4,079,633)
Qualifying transaction	11(a) to (g)	20,778,567	(254,743)	(443,666)	20,080,158
Share-based compensation – Stock option plan	10(a)	-	205,693	247,848	453,541
Issuance of warrants	12	-	115,635	-	115,635
Issuance of deferred share units	10(b)	-	20,997	-	20,997
Balance – March 31, 2014		20,779,567	903,012	(14,461,631)	7,220,948
Loss and comprehensive loss for the year		-	-	(4,998,949)	(4,998,949)
Equity components of convertible debentures	8	-	1,250,000	-	1,250,000
Share-based compensation – Stock option plan	10(a)	-	650,503	-	650,503
Issuance of warrants	12	-	367,606	-	367,606
Balance – March 31, 2015		20,779,567	3,171,121	(19,460,580)	4,490,108

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

Pediapharm Inc.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

	Note	For the year ended March 31, 2015 \$	For the 15-month period ended March 31, 2014 \$
Cash flows from			
Operating activities			
Loss for the year		(4,998,949)	(4,079,633)
Adjustments for			
Depreciation of property and equipment		17,997	7,837
Amortization of intangible assets		99,082	103,881
Amortization of financing fees related to term loans		-	42,476
Amortization of debt discount		-	50,805
Forfeited stock options	10(a)	(32,525)	(75,252)
Gain on warrant conversion	11	-	(174,214)
Chelsea amalgamation	3	-	1,209,915
Share-based compensation expense	10(a)	683,028	205,693
Issuance of shares for qualifying transaction		-	428,220
Capitalized interest on long-term debt		-	190,333
Interest on long-term debt		-	152,112
Interest income		(49,227)	(29,421)
Unrealized foreign exchange loss		15,158	4,547
Deferred share units	10(b)	-	(82,196)
		(4,265,436)	(2,044,897)
Changes in non-cash operating working capital items	16	(344,391)	157,255
Interest paid		-	(152,112)
Interest received		49,227	29,421
		(4,560,600)	(2,010,333)
Investing activities			
Cash acquired through amalgamation	3	-	178,272
Decrease in investments		-	50,506
Purchases of property and equipment		(54,538)	(11,736)
Purchases of intangible assets		(856,640)	(123,854)
		(911,178)	93,188
Financing activities			
Proceeds from issuance of shares, net of issuance costs		-	8,154,970
Proceeds from long-term debt and warrants, net of issuance costs		-	986,098
Repayment of long-term debt		(6,892)	(731,250)
Proceeds from issuance of convertible debentures, net of issuance costs	8	5,200,371	-
		5,193,479	8,409,818
Foreign exchange impact on cash		(15,155)	-
Net change in cash and cash equivalents during the year		(293,454)	6,492,673
Cash and cash equivalents – Beginning of year		7,092,224	599,551
Cash and cash equivalents – End of year		6,798,770	7,092,224

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

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Notes to Consolidated Financial Statements

March 31, 2015 and 2014

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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. The amounts presented in these consolidated financial statements are not comparable, since the year ended March 31, 2015 is a 12-month period and the comparative period ending March 31, 2014 is a 15-month period.

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set out in Part I of the Chartered Professional Accountants of Canada (CPA Canada) Handbook – Accounting, which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of July 20, 2015.

The accompanying 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.

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New standards not yet adopted by the Company

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9, Financial Instruments, that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, Financial Instruments, which replaces earlier versions of IFRS 9 issued and completes the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7 require additional disclosures on transition from IAS 39 to IFRS 9. Amendments to IFRS 7 are applicable to annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements

In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective from January 1, 2016. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, and the related interpretations on revenue recognition: IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

There are no other IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company.

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Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other assumptions that it considers reasonable. The areas involving a high degree of judgment or complexity, or other areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified.

a) Fair value of stock options and warrants

When the Company issues stock options and warrants, an estimate of fair value is derived for the instrument using the Black-Scholes option pricing model. The application of this option pricing model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of the Company's shares over a relevant time frame, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future. If other assumptions are used, the value derived for the instruments could be significantly impacted. See notes 10 and 12 for assumptions used to value these instruments.

b) Impairment of intangible assets

Licences are recognized as intangible assets and are amortized over their useful lives when they meet the criteria for capitalization. Forecasted revenue and profitability for the relevant products are used to assess compliance with the capitalization criteria and to assess the recoverable amount of the assets. The useful life is determined by identifying the period in which substantially all of the cash flows are expected to be generated and generally amortization starts either as from the date of the distribution approval granted by Health Canada or as from the date of the license contract signature, depending on the contract terms. Whenever licences are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment.

On May 5, 2015, the Company announced that it has received a Notice of Deficiency – Withdrawal Letter from Health Canada regarding its new drug submission for Easyhaler Budesonide (note 22). The Company's file is eligible for the reconsideration process, which is part of normal regulatory actions available to sponsors. The Company has since filed such a request, as it believes that its filing has enough evidence to support regulatory approval. As a result, management concluded that no impairment is required for the capitalized licence costs related to this product.

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c) **Fair value of convertible debentures**

The convertible debentures are a compound financial instrument under IAS 32, Financial Instruments: Presentation, and have both a liability and an equity component. The fair value of the consideration for the compound instrument must be split into its liability and equity components. The fair value of the consideration in respect of the liability component is first measured at the fair value of a similar liability that does not have any associated equity conversion option. This becomes the liability component's carrying amount at initial recognition, and the residual amount is allocated to the equity components. The most significant assumption used is the discount rate to fair value for the liability component. If other assumptions are used, the values derived could be significantly impacted. See note 8 for the assumptions used to determine the fair value of the convertible debentures.

Foreign currency translation

The Company's presentation and functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in loss and comprehensive loss for the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rate in effect at the transaction date.

Revenue recognition

Sale of products

The Company sells pediatric pharmaceutical products. Revenue from the sale of products in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized when the significant risks and benefits of ownership are transferred, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, there is no continuing management involvement with the products and the amount of revenue can be measured reliably.

Commission revenue

The Company receives commission revenue in the course of ordinary activities, which is measured at the fair value of the consideration received or receivable. Revenue is recognized when the recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement and the amount of revenue can be measured reliably.

Reimbursement of selling expenses

The Company receives reimbursement of certain selling expenses incurred for the promotion and marketing of certain products for which it receives commission revenue, which are recognized when they become due and collection is reasonably assured. For the year ended March 31, 2015, reimbursements of selling expenses amounted to \$121,586 (for the 15-month period ended March 31, 2014 – \$247,825) and are included as a reduction of selling expenses.

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Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original terms to maturity of 90 days or less at the date of purchase.

Inventories

Finished goods are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. For the year ended March 31, 2015, the cost of inventories sold included in selling expenses is \$689,861 (for the 15-month period ended March 31, 2014 – \$392,647).

Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The Company depreciates its property and equipment as follows:

	Method	Rate/Period
Computer equipment	Straight-line	3 years
Office furniture and equipment	Declining balance	20%

Intangible assets

Separately acquired trademarks and licences are recorded at cost less accumulated amortization and any accumulated impairment charges. These assets have finite useful lives.

Intangible assets are amortized using the straight-line basis over their estimated lives as follows:

	Period
Licences	7 and 15 years
Trademarks	15 years
Software	3 years

Amortization method and useful lives are reviewed and adjusted, if appropriate, on a prospective basis at each reporting date.

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Impairment of long-lived assets

Property and equipment and intangible assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels at which they have separately identifiable cash flows (cash-generating units). Non-financial assets that previously had impairment are reviewed for possible reversal of the impairment at each reporting date. There was no impairment on the Company's long-lived assets for any of the periods presented.

Financial instruments

The Company classifies its financial instruments into the following categories: "Loans and receivables"; "Held-to-maturity"; "Financial liabilities at FVTPL", and "Other financial liabilities". The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial instruments at their initial recognition. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

The Company's financial instruments are classified as follows:

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company classifies cash and cash equivalents and accounts receivable in the consolidated statements of financial position as loans and receivables.

Loans and receivables are initially recognized at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership.

Held-to-maturity – Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognized at fair value including transaction costs and measured subsequently at amortized cost using the effective interest method.

The Company has no financial instruments classified as held-to-maturity.

Financial liabilities at FVTPL – Financial liabilities at FVTPL are financial liabilities held for trading, which includes derivatives and financial liabilities designated by the Company at FVTPL. The financial liabilities were designated at FVTPL as they are managed on a fair value basis.

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Financial liabilities at FVTPL are initially recognized at fair value, and transaction costs are expensed immediately in the consolidated statements of comprehensive loss. Gains and losses arising from changes in the fair value of financial liabilities at FVTPL are presented in the consolidated statements of comprehensive loss in other losses, net in the period in which they arise.

The Company will derecognize a financial liability, or part of a financial liability when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

The Company has no financial instruments classified as financial liabilities at FVTPL.

Other financial liabilities – These financial instruments are measured initially at fair value and subsequently at amortized cost using the effective interest method. The Company classifies accounts payable and accrued liabilities, long-term debt and convertible debentures as other financial liabilities.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment losses on financial assets carried at cost are reversed in subsequent periods if the amount of loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Deferred revenue

Deferred revenue consists of amounts received from commission and product sales in advance of revenue recognition.

Income taxes

Current income tax expense is calculated on the basis of the applicable Canadian tax laws enacted or substantively enacted at the end of the period. The tax expense for the fiscal year comprises current and deferred income tax. Tax expense is recognized in the consolidated statements of comprehensive loss, except to the extent that it is recognized in equity.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the consolidated statements of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-based compensation

The Company has outstanding common stock options which are considered equity awards. Accordingly, the Company recognizes a share-based compensation expense based on the fair value of the options at the grant date with a corresponding credit to contributed surplus. The options vest in tranches (graded vesting); accordingly, the expense is recognized using the accelerated expense attribution method over the vesting period. The vesting of an award is not contingent on the attainment of performance conditions.

The Company had outstanding deferred share units which were given to its directors based on their attendance at board of directors meetings. These units were converted into common shares at the date of the qualifying transaction (note 11).

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Earnings per share is calculated by dividing the net income for the period attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted weighted average number of common shares outstanding is calculated by taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date unless it is anti-dilutive. The treasury stock method is used to determine the dilutive effect of the stock options. The treasury stock method is a method of recognizing the use of proceeds that could be obtained upon the exercise of options in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period. The Company has two categories of dilutive potential common shares: share-based compensation options and warrants. For the year ended March 31, 2015, share-based compensation options, warrants and convertible debenture conversion options to acquire 23,926,469 common shares (for the 15-month period ended March 31, 2014 – 4,412,920) have been excluded from the diluted earnings per share calculation, since their inclusion would have had an anti-dilutive effect.

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Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has one reportable operating segment: the sales and marketing services in the pharmaceutical industry, particularly related to pediatric care. All of the Company's assets are located in Canada.

3 Qualifying transaction

On December 10, 2013, the shareholders of Chelsea Acquisition Corporation (Chelsea) approved the proposed qualifying transaction of Chelsea involving the amalgamation (the Amalgamation) of Chelsea and former Pediapharm Inc. (Pediapharm). Pursuant to the amalgamation, a new entity was formed on December 10, 2013 under the Canada Business Corporations Act called "Pediapharm Inc." (the Company). The Amalgamation constituted the qualifying transaction of Chelsea in accordance with the requirements of TSX Venture Exchange Inc. Policy 2.4 – Capital Pool Companies. TSX Venture Exchange accepted for filing the qualifying transaction, and the Company began trading on the TSX Venture Exchange under the symbol PDP on December 27, 2013.

This type of share exchange is referred to as a reverse acquisition. A reverse acquisition involving a non-public enterprise and a non-operating public enterprise is a capital transaction in substance, rather than a business combination. Since the Qualifying Transaction (Transaction) does not meet the definition of a business combination in accordance with IFRS 3, Business Combinations, the Transaction was accounted for as an asset acquisition as follows:

- The assets and liabilities of Pediapharm are recognized and measured in the consolidated statement of financial position at their pre-transaction carrying amounts.
- The identifiable assets and liabilities of Chelsea are recognized at fair value at the acquisition date. The fair value of Chelsea is determined based on the number of equity interests deemed to have been issued by Pediapharm.
- The excess of the fair value over the identifiable assets and liabilities of Chelsea is charged to comprehensive loss in accordance with IFRS 2, Share-based Payment.
- Deficit and other equity balances recognized in the consolidated statement of financial position are those of Pediapharm immediately prior to the transaction.
- The amount recognized as issued common shares and warrants (presented in contributed surplus) in the consolidated statement of financial position is determined by adding the fair value of Chelsea to Pediapharm's issued equity immediately prior to the transaction. The equity structure of Pediapharm was restated using the established exchange ratio to reflect the number of shares issued by Chelsea in the Transaction.

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The net assets acquired were as follows:

	\$
Cash	178,272
Net tangible assets acquired	<u>178,272</u>

The fair value of consideration paid to acquire Chelsea's net assets was as follows:

	Number	Amount \$
Outstanding shares of Chelsea	3,666,666*	1,100,000
Outstanding share options of Chelsea	466,666*	<u>109,915</u>
		<u>1,209,915</u>

* Each group of three outstanding Chelsea common shares and three outstanding share options was exchanged for one common share and one share option, respectively.

The excess of the fair value over the carrying value of the identifiable assets and liabilities of Chelsea was recorded as a stock exchange listing expense and was charged to comprehensive loss in the amount of \$1,031,643. The fair value of the share options of Chelsea were estimated using the Black-Scholes valuation model with the following assumptions: expected term of 1.7 years for 100,000 options and 8.7 years for the remaining 366,666 options; volatility of 100%; dividend yield of 0% and risk-free interest rate of 1.25%.

4 Accounts receivable

	2015 \$	2014 \$
Trade, net of allowance for doubtful accounts of nil (2014 – nil)	205,960	427,727
Sales taxes receivable	94,926	-
	<u>300,886</u>	<u>427,727</u>

No trade accounts receivable were past due or impaired.

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5 Property and equipment

	Computer equipment \$	Office furniture and equipment \$	Total \$
For the 15-month period ended March 31, 2014			
Opening net book value	960	17,645	18,605
Additions under a finance lease	8,093	-	8,093
Additions	3,643	-	3,643
Depreciation charge	(3,602)	(4,235)	(7,837)
Closing net book value	9,094	13,410	22,504
As at March 31, 2014			
Cost	64,186	38,659	102,845
Accumulated depreciation	(55,092)	(25,249)	(80,341)
Net book value	9,094	13,410	22,504
For the year ended March 31, 2015			
Opening net book value	9,094	13,410	22,504
Additions	41,332	13,206	54,538
Depreciation charge	(13,369)	(4,628)	(17,997)
Closing net book value	37,057	21,988	59,045
As at March 31, 2015			
Cost	105,518	51,865	157,383
Accumulated depreciation	(68,461)	(29,877)	(98,338)
Net book value	37,057	21,988	59,045

Depreciation expense has been charged to selling and administrative expenses.

Pediapharm Inc.

Notes to Consolidated Financial Statements March 31, 2015 and 2014

(expressed in Canadian dollars)

6 Intangible assets

	Licences \$	Trademarks \$	Software \$	Total \$
For the 15-month period ended March 31, 2014				
Opening net book value	627,246	2,775	1,206	631,227
Additions under a finance lease	-	-	3,725	3,725
Additions	117,589	-	2,540	120,129
Amortization charge	(101,009)	(375)	(2,497)	(103,881)
Closing net book value	643,826	2,400	4,974	651,200
As at March 31, 2014				
Cost	853,998	4,500	25,215	883,713
Accumulated amortization	(210,172)	(2,100)	(20,241)	(232,513)
Net book value	643,826	2,400	4,974	651,200
For the year ended March 31, 2015				
Opening net book value	643,826	2,400	4,974	651,200
Additions	848,025	-	8,615	856,640
Amortization charge	(95,706)	(300)	(3,076)	(99,082)
Closing net book value	1,396,145	2,100	10,513	1,408,758
As at March 31, 2015				
Cost	1,702,023	4,500	33,828	1,740,351
Accumulated amortization	(305,878)	(2,400)	(23,315)	(331,593)
Net book value	1,396,145	2,100	10,513	1,408,758

Amortization expense has been charged to selling and administrative expenses.

As at March 31, 2015, the average remaining life of the licences was approximately seven years (2014 – eight years).

7 Accounts payable and accrued liabilities

	2015 \$	2014 \$
Accounts payable – Trade	502,385	670,110
Accrued liabilities	492,338	430,205
	994,723	1,100,315

Pediapharm Inc.

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8 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 offering consisted of: (i) a brokered offering of an aggregate of \$4,975,000 principal amount of debentures and 3,014,850 warrants and (ii) a non-brokered offering of an aggregate of \$525,000 principal amount of debentures and 318,150 warrants.

The convertible debentures mature four years from the date of issue, bear interest at a rate of 12% per annum paid quarterly in cash, and are fully secured by the assets of the Company. The principal amount is convertible at any time at the option of the holder into common shares of the Company at a price of \$0.45 per common share and upon giving effect to such conversion, all accrued and unpaid interest will be paid in full. The debentures will automatically convert into common shares at the conversion price if during any twenty consecutive trading days, the common shares trade at a volume weighted average price of at least \$0.60 on a total cumulative volume of not less than two million shares. The Company may at any time after the second anniversary of the date of issue, and prior to maturity, repay the principal amount subject to an early repayment fee of 2% of the principal amount repaid.

The convertible debentures are a compound financial instrument under IAS 32, Financial Instruments: Presentation, and have both a liability and equity component. The fair value of the consideration for the compound instrument must be split into its liability and equity components. The fair value of the consideration in respect of the liability component is first measured at the fair value of a similar liability that does not have any associated equity conversion option. This becomes the liability component's carrying amount at initial recognition, and the residual amount is allocated to the equity components.

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.

Each warrant issued pursuant to the offering is exercisable at a price of \$0.33 per common share until March 30, 2019. The fair value of these warrants were estimated using the Black-Scholes valuation model with the following assumptions: expected term of four years; volatility of 72%; dividend yield of 0% and risk-free interest rate of 0.64%.

In connection with the brokered offering, the Company paid the agent a cash commission of \$118,500 and also granted the agent 359,091 broker warrants, with each such broker warrant entitling the holder to purchase one common share at a price of \$0.33 per common share until March 30, 2017. The fair value of these broker warrants were estimated using the Black-Scholes valuation model with the following assumptions: expected term of two years; volatility of 72%; dividend yield of 0% and risk-free interest rate of 0.51%.

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 will be accreted to the face value of the convertible debentures until maturity.

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

9 Long-term debt

	Note	2015 \$	2014 \$
Term loan	9(a)	-	3,000
Term loan	9(b)	4,693	8,585
Less: Current portion		4,313	6,892
		<u>380</u>	<u>4,693</u>

- a) Bearing interest at prime rate plus 5.00%, repayable in consecutive monthly instalments amounting to \$750 plus interest, matured in July 2014.
- b) Finance lease with a face value of \$11,818, bearing interest at 10.30% annually, repayable in 36 monthly instalments amounting to \$383, maturing in April 2016.

The minimum principal repayments required to settle long-term debt in the coming years are as follows:

	\$
2016	4,313
2017	380

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Notes to Consolidated Financial Statements

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10 Share-based compensation

a) Stock option incentive plans

	2015		2014	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding – Beginning of year	4,176,666	0.45	608,038	0.91
Existing fully vested Chelsea options (note 3)	-	-	366,666	0.30
Granted	360,000	0.32	3,810,000	0.46
Forfeited*	(290,764)	0.46	(608,038)	0.91
Options outstanding – End of year	4,245,902	0.43	4,176,666	0.45
Options exercisable – End of year	1,735,643	0.42	696,666	0.38

* During the year ended March 31, 2015, 290,764 options were forfeited on the departure of employees and directors.

As at March 31, 2015, the options outstanding under the plan have a weighted average remaining life of approximately nine years (March 31, 2014 – ten years).

i) 2010 stock option incentive plan

On May 27, 2010, the Company adopted a stock option incentive plan for Class “A” common shares whereby a maximum of 1,141,400 Class “A” common shares were reserved for and offered as part of the deferred compensation plan and/or as stock options to directors, officers, employees and consultants of the Company. The plan provided that the terms and pricing of the options would be established by the directors. Each option would expire at a date not exceeding 10 years following the grant date of the option. One third of the options granted may be exercised on the first anniversary of the grant date, and the remaining options may be exercised in two equal instalments during the two-year period following the first anniversary of the grant date. However, the options granted would become immediately exercisable in the following instances:

- Shareholders of the Company holding more than 50% of the issued and outstanding shares have accepted a purchase offer from a third party for their shares;
- The Company holds a public offering of securities by prospectus under applicable laws; or
- The Company sells all or substantially all of its assets.

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Notes to Consolidated Financial Statements

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As part of the Qualifying Transaction (note 11(e)), the options outstanding under the 2010 plan were all forfeited.

ii) 2014 stock option incentive plan

On January 22, 2014, the Company adopted a stock option incentive plan for common shares whereby the Company granted 3,585,000 common shares to directors, officers, employees and consultants of the Company. The options were issued with an exercise price of \$0.46 per share and have a term of ten (10) years. In addition, the options have varied vesting provisions such that for some, one third of the options may be exercised on the grant date and the remaining options may be exercised in the proportion of one third in each subsequent year and for others, one fourth of the options may be exercised on the first anniversary of the grant date and the remaining options may be exercised in the proportion of one fourth in each subsequent year.

On February 17, 2014, the Company granted 225,000 stock options to an officer of the Company. The options were issued with an exercise price of \$0.46 per share, have a term of ten (10) years and have vesting provisions such that one fourth of the options vest on the first anniversary of the grant date and the remaining options may be exercised in the proportion of one fourth in each subsequent year.

On September 4, 2014, the Company granted 260,000 stock options to employees and directors of the Company. The options were issued with an exercise price of \$0.30 per share and have a term of ten (10) years. 80,000 of the options have vesting provisions such that one fourth of the options vest on the first anniversary of the grant date and the remaining options may be exercised in the proportion of one fourth in each subsequent year, and 180,000 of the options have vesting provisions such that one third of the options may be exercised on the grant date and the remaining options may be exercised in the proportion of one third in each subsequent year.

As at March 31, 2015, a total of 3,059,864 common shares remained authorized for issuance under the stock incentive plan.

On May 1, 2014, the Company also granted 100,000 stock options to a service provider. The options were issued with an exercise price of \$0.36 per share, have a term of one year and have vesting provisions such that one twelfth of the options vest each month from the grant date.

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

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In estimating the share-based compensation expense for options granted to directors, officers, employees and consultants, the Company uses the Black-Scholes option pricing model. The assumptions used for options granted were as follows:

	2015	2014
Risk-free interest rate	1.04% to 1.67%	1.25% to 2.12%
Volatility	82%	100%
Expected life	1 to 6 years	6 to 8.7 years
Expected dividend yield	Nil	Nil
Expected forfeiture rate	0% to 5%	5%
Fair value per option granted	\$0.05 to \$0.21	\$0.36

For the year ended March 31, 2015, the share-based compensation expense with respect to these options, as well as vesting of previously granted options amounted to \$650,503 (for the 15-month period ended March 31, 2014 – \$205,693) and is included in selling and administrative expenses in the consolidated statement of comprehensive loss.

b) Deferred share unit plan

	2015		2014	
	Number of units	Amount \$	Number of units	Amount \$
Deferred share units outstanding – Beginning of year	-	-	397,737	382,948
Granted	-	-	20,000	20,997
Converted as part of Qualifying Transaction (note 11)	-	-	(417,737)	(403,945)
Deferred share units outstanding – End of year	-	-	-	-

Effective June 1, 2009, the Company adopted a deferred compensation plan. A deferred share unit was equal in value to one common share of the Company. The fair value of the deferred share units granted was estimated on the grant date based on the value of the common shares as per the most recent financing obtained. All units fully vested on the grant date and only became exercisable when the Company's shares became publicly traded.

For the year ended March 31, 2015, the Company recorded an expense in the consolidated statement of comprehensive loss in selling and administrative expenses of nil (for the 15-month period ended March 31, 2014 – \$20,997) for the deferred share units granted.

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11 Shareholders' equity

Authorized shares

The Company is authorized to issue an unlimited number of common shares without par value.

The January 1, 2013 equity structure of the Company was restated using the established exchange ratio to reflect the number of shares issued by Chelsea in the Transaction (notes 3 and 11(a)(i)).

The changes in equity for the periods are as follows:

	Note	Common shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance – January 1, 2013	3	8,160,000	1,000	815,430	(10,186,180)	(9,369,750)
Loss and comprehensive loss for the period		-	-	-	(4,079,633)	(4,079,633)
Deferred share unit issuance		-	-	20,997	-	20,997
Share-based compensation – Stock option plan	10	-	-	205,693	-	205,693
Issuance of warrants	12	-	-	115,635	-	115,635
<i>Qualifying transaction (Transaction)</i>						
Exchange of Pediapharm puttable Class "A" common shares	11(a)	19,233,669	8,414,701	-	-	8,414,701
Exchange of Chelsea common shares	11(a)	3,666,666	1,100,000	109,915	-	1,209,915
Issuance of shares to minority shareholders	11(a)	602,401	180,720	-	-	180,720
Conversion of deferred share units	11(a)	1,002,571	300,771	(403,945)	-	(103,174)
Conversion of term loans	11(a)	7,668,025	2,300,408	-	(443,666)	1,856,742
Issuance of shares for 1 st private placement	11(b)	23,254,968	6,976,490	-	-	6,976,490
Issuance of agents' options and warrants	11(b)	-	(293,842)	293,842	-	-
Costs related to issuance of shares	11(b)	-	(652,260)	-	-	(652,260)
Issuance of shares for conversion of debt	11(c)	1,666,667	236,833	263,167	-	500,000
Costs related to issuance of shares	11(c)	-	(10,000)	-	-	(10,000)
Issuance of shares to agents for finder's fees	11(d)	825,000	247,500	-	-	247,500
Forfeiture of stock options	11(e)	-	-	(323,100)	247,848	(75,252)
Conversion of previously issued warrants	11(f)	-	-	(174,214)	-	(174,214)
Exercise of warrants	12	420,333	191,301	(65,200)	-	126,101
Issuance of shares for 2 nd private placement	11(g)	5,555,556	2,000,000	-	-	2,000,000
Costs related to issuance of shares	11(g)	-	(169,263)	-	-	(169,263)
Issuance of warrants for 2 nd private placement	11(g)	-	(44,792)	44,792	-	-
Balance – March 31, 2014		72,055,856	20,779,567	903,012	(14,461,631)	7,220,948

Pediapharm Inc.

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	Note	Common shares	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance – April 1, 2014	3	72,055,856	20,779,567	903,012	(14,461,631)	7,220,948
Loss and comprehensive loss for the year		-	-	-	(4,998,949)	(4,998,949)
Equity components of convertible debentures		-	-	1,250,000	-	1,250,000
Share-based compensation – stock option plan	10	-	-	650,503	-	650,503
Issuance of warrants	12	-	-	367,606	-	367,606
Balance – March 31, 2015		72,055,856	20,779,567	3,171,121	(19,460,580)	4,490,108

The issued and outstanding Chelsea common shares were exchanged for an aggregate of 3,666,666 common shares (note 3). Chelsea shareholders also received 366,666 stock options of the Company, and Macquarie, as agent of the transaction, received 100,000 stock options of the Company.

- a) The issued and outstanding Pediapharm and Chelsea common shares were exchanged for an aggregate of 36,666,668 common shares of the Company with a deemed value of \$0.30 per share as follows:
- 3,400,000 Class “A” common shares of Pediapharm at an aggregate value of \$1,000 were converted into 8,160,000 common shares.
 - 8,014,001 Puttable Class “A” common shares at a value of \$8,414,701 were converted into 19,233,650 common shares and no longer have the put at the option of the holders.
 - Prior to the Qualifying Transaction on September 20, 2013, a shareholder’s resolution approved the issuance of 251,000 Class “A” common shares which were subsequently converted into 602,401 common shares for an aggregate value of \$180,720. These shares were issued to minority shareholders, due to their anti-dilution rights. The \$180,720 was recognized as stock exchange listing expense in the consolidated statement of comprehensive loss.
 - Prior to the Qualifying Transaction on September 20, 2013, a shareholders’ resolution approved the conversion of 417,737 vested deferred share units at an aggregate value of \$403,945 into 417,737 Class “A” common shares which were subsequently converted into 1,002,571 common shares using a conversion ratio resulting in an aggregate value of \$300,771. The \$103,174 difference was recognized as stock exchange listing recovery in the consolidated statement of comprehensive loss.
 - Prior to the Qualifying Transaction on September 20, 2013, a shareholders’ resolution approved the conversion of the term loans of \$1,856,742 into 3,195,003 Class “A” common shares which were subsequently converted into 7,668,026 common shares for an aggregate share price of \$2,300,408. This includes the principal, accumulated interest up to August 31, 2013 and a 20% share conversion premium, as per the term loans agreements. The resulting premium of \$443,666 on conversion was charged to deficit.

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- b) The Company completed a private placement of subscription receipts at a price of \$0.30 per receipt for gross proceeds of \$6,376,490. Each subscription receipt was converted into one common share concurrent with the completion of the transaction at no additional cost to the holder. The net proceeds were \$5,790,480 (\$6,376,490 less share issue costs of \$586,010, which were recorded as a reduction of share capital). The fair value of the 1,700,396 agents' warrants issued as part of the private placement was estimated at \$268,571 (note 12).

In addition, the Company completed a private placement (the QSSP Offering) of common shares to a qualified mutual fund through the Quebec Stock Savings Plan II. Pursuant to the QSSP Offering, the Company issued 2,000,000 common shares at a price of \$0.30 per common share for gross proceeds of \$600,000. The net proceeds were \$533,750 (\$600,000 less share issue costs of \$66,250, which were recorded as a reduction of share capital). The fair value of the 160,000 agents' options warrants issued as part of the private placement was estimated at \$25,271 (note 12).

- c) On September 20, 2013, financing of \$490,000 was obtained (\$500,000 less issue costs of \$10,000, which were recorded as a reduction of the financing). The financing of \$490,000 was converted into 1,666,667 common shares and 1,666,667 warrants as a result of the completion of the transaction. The fair value of the 1,666,667 warrants issued with the financing was estimated at \$263,167 (note 12(c)).
- d) In connection with the amalgamation with Chelsea (note 3), the Company paid finders' fees to agents of \$330,000 with \$82,500 being paid in cash and the balance paid by the issuance of 825,000 common shares. This was recorded as a stock exchange listing expense and has been charged to comprehensive loss in the amount of \$330,000.
- e) 602,038 outstanding Pediapharm share options were forfeited by their holders, resulting in a reduction of contributed surplus of \$323,100 and a recovery of \$75,252 for the unvested options at the forfeiture date, included in stock exchange listing expense in the consolidated statement of comprehensive loss.
- f) 342,857 outstanding Pediapharm share purchase warrants with a value of \$225,019 were exchanged for 342,857 share purchase warrants of the Company with an exercise price of \$0.44 per share. This is a modification of the previously issued warrants and the revised fair value of those warrants was estimated at \$50,805 (note 12). The \$174,215 difference was included as a recovery in stock exchange listing expense in the consolidated statement of comprehensive loss.
- g) On February 21, 2014, the Company completed a "bought deal" private placement of 5,555,556 common shares of the Company at a price of \$0.36 per common share for gross proceeds of \$2,000,000. The net proceeds were \$1,830,737 (\$2,000,000 less share issue costs of \$169,263, which were recorded as a reduction of share capital). The common shares are subject to a hold period expiring on June 22, 2014. The fair value of the 166,667 warrants issued with the bought deal was estimated at \$44,792 (note 12).

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12 Warrants

		2015			2014		
	Note	Number of Warrants	Weighted average exercise price	Amount \$	Number of Warrants	Weighted average exercise price	Amount \$
Outstanding – Beginning of year		3,716,254	0.32	601,479	166,667	1.05	109,384
Issuance of warrants	12(e) to (f)	3,692,091	0.33	367,606	-	-	-
Term loan	12(a)	-	-	-	176,190	1.05	115,635
Term loan adjustment	12(a)	-	-	-	-	0.44	(174,214)
Existing Chelsea warrants	(3)	-	-	-	100,000	0.30	14,073
Qualifying transaction	12(b) to (d)	-	-	-	3,693,730	0.30	601,801
Exercise of warrants		-	-	-	(420,333)	0.30	(65,200)
Warrants outstanding – End of year		7,408,345	0.32	969,085	3,716,254	0.32	601,479

a) As at December 31, 2012, the outstanding warrants were held by lenders of the long-term debt. The lenders will be able to subscribe for an additional number of Class “A” common shares under the following conditions:

- Each \$1,000 tranche of debt owed gives the lender the right to one warrant;
- Each warrant permits the subscription for shares for an amount of \$500, at a price of \$1.05 per share; and
- Each warrant is valid for 36 months starting at the signed agreement date.

The proceeds received from the term loan are allocated between the term loan and the warrants. In addition to the 166,667 warrants issued in 2012, 176,190 additional warrants were issued to the lenders during 2013 with a fair value of \$115,635.

As part of the Qualifying Transaction, these 342,857 outstanding share purchase warrants with a value of \$225,019 were exchanged for 342,857 share purchase warrants of the Company with an exercise price of \$0.44 per share. This is a modification of the previously issued warrants and the revised fair value of those warrants is estimated at \$50,805. The \$174,214 difference was included as a recovery in stock exchange listing expense in the consolidated statement of comprehensive loss.

- b) 1,860,396 warrants that entitle the holder to acquire 1,860,396 common shares at an exercise price of \$0.30 per share were granted to the agents of the 1st private placement (note 11(b)) expiring on December 10, 2015. The fair value of the 1,860,396 agents' options warrants is estimated at \$293,842.
- c) 1,666,667 warrants that entitle the holder to acquire 1,666,667 common shares at an exercise price of \$0.30 per share were granted to holders of the \$500,000 financing (note 11(c)) expiring on September 20, 2015. The fair value of the warrants is estimated at \$263,167.

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- d) 166,667 warrants that entitle the holder to acquire 166,667 Company common shares at an exercise price of \$0.36 per share were granted to the agents of the 2nd private placement (note 11(g)) expiring on February 21, 2016. The fair value of the warrants is estimated at \$44,792. In estimating the fair value for warrants, the Company uses the Black-Scholes option pricing model.
- e) As part of the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company (note 8), 3,333,000 warrants that entitle the holder to acquire 3,333,000 Company common shares at an exercise price of \$0.33 per share were granted to holders of the convertible debentures expiring on March 30, 2019. The fair value of the warrants is estimated at \$343,979 (note 8).
- f) As part of the March 31, 2015 private placement of secured convertible debentures of the Company and share purchase warrants of the Company (note 8), 359,091 broker warrants that entitle the holder to acquire 359,091 Company common shares at an exercise price of \$0.33 per share were granted to brokers of the convertible debentures expiring on March 30, 2017. The fair value of the warrants is estimated at \$23,627 (note 8).

The assumptions used for warrants granted were as follows:

	2015	2014
Risk-free interest rate	0.51 to 0.64%	1.25%
Volatility	72%	100%
Expected life	2 to 4 years	1.7 to 2.5 years
Expected dividend yield	0%	0%
Average fair value per warrant granted	\$0.07 and \$0.10	\$0.15, \$0.16 and \$0.27

Warrants outstanding as at March 31, 2015:

	Outstanding	Price \$	Expiry
Warrants	1,666,667	0.30	September 30, 2015
Warrants	342,857	0.44	October 19, 2015
Agents' options	1,540,063	0.30	December 27, 2015
Agents' options	166,667	0.36	February 21, 2016
Broker warrants	359,091	0.33	March 30, 2017
Warrants	<u>3,333,000</u>	0.33	March 30, 2019
Total	<u>7,408,345</u>		

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13 Finance costs (income)

	2015 \$	2014 \$
Interest on long-term debt	-	341,598
Amortization of financing fees	-	42,476
Amortization of debt discount	-	50,805
	<hr/>	<hr/>
	-	434,879
	<hr/>	<hr/>

14 Employee benefit expense

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

	2015 \$	2014 \$
Salaries and benefits	2,016,743	2,130,288
Share-based compensation	351,678	71,544
	<hr/>	<hr/>
	2,368,421	2,201,832
	<hr/>	<hr/>

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

	2015 \$	2014 \$
Key management compensation		
Short-term employee benefits and consulting fees	1,166,017	950,197
Deferred share units	-	20,997
Share-based compensation	298,825	134,149
	<hr/>	<hr/>
	1,464,842	1,105,343
	<hr/>	<hr/>

Key management compensation is included in selling and administrative expenses.

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15 Related party transactions

Transactions with related parties during the period and amounts due to or from these parties as at March 31, 2015 are disclosed in these consolidated financial statements.

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

For the year ended March 31, 2015, the Company paid management fees in the amount of \$159,930 (for the 15-month period ended March 31, 2014 – \$106,290) to a company owned by the current Chief Financial Officer of the Company.

For the year ended March 31, 2015, the Company paid management fees in the amount of \$7,000 (for the 15-month period ended March 31, 2014 – \$10,000) to a Director of the Company for a project outside of the regular duties of a Director.

For the year ended March 31, 2015, the Company paid consulting fees in the amount of nil (for the 15-month period ended March 31, 2014 – \$28,427) to a firm of which a Director of the Company is a partner.

For the year ended March 31, 2015, the Company paid legal fees in the amount of \$74,421 (for the 15-month period ended March 31, 2014 – nil) to a firm of which a Director of the Company is a partner.

16 Cash flows

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

	For the year ended March 31, 2015 \$	For the 15-month period ended March 31, 2014 \$
Decrease (increase) in		
Accounts receivable	126,840	(163,121)
Prepaid expenses	(79,703)	(20,713)
Inventories	(21,608)	(241,311)
Increase (decrease) in		
Accounts payable and accrued liabilities	(105,593)	587,029
Deferred revenue	(264,327)	(4,629)
	<u>(344,391)</u>	<u>157,255</u>

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17 Selling and administrative expenses

	For the year ended March 31, 2015 \$	For the 15-month period ended March 31, 2014 \$
Sales and marketing expenses	4,702,196	3,995,363
Business development and regulatory affairs	1,377,720	687,938
General administrative	2,021,918	1,533,304
Total	<u>8,101,834</u>	<u>6,216,605</u>

18 Commitments

The future minimum payments required under a long-term operating lease for office space are as follows:

	\$
2016	122,207
2017	81,472

The Company also has commitments related to milestone payments it is required to pay to existing partners if some key milestones are achieved, such as Health Canada approvals.

19 Economic dependence

For the year ended March 31, 2015, 10% (for the 15-month period ended March 31, 2014 – 34%) of the Company's revenues resulted solely from commissions earned from one company and nil (year ended March 31, 2014 – 67%) of the Company's receivables resulted solely from commissions receivable from one company.

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20 Income taxes

A reconciliation of income taxes at the Canadian statutory rate with reported income taxes are as follows:

	2015 \$	2014 \$
Statutory federal and provincial tax	(1,344,717)	(1,097,421)
Increase (decrease) in taxes recoverable resulting from:		
Effect of change in valuation allowance	1,200,379	1,017,317
Non-deductible share-based compensation	174,985	97,275
Non-deductible expenses for tax purposes	9,370	81,367
Share issue costs	-	(109,631)
Other differences	(40,017)	11,093
	<u>-</u>	<u>-</u>

The Canadian combined statutory rate as at March 31, 2015 was 26.9% (2014 – 26.9%).

The Company has accumulated non-capital losses which can be carried forward to reduce future taxable income and which expire as follows:

	\$
2028	612,683
2029	700,862
2030	1,998,228
2031	1,739,847
2032	2,120,629
2033	847,524
2034	1,197,126
2035	4,940,017
	<u>14,156,916</u>

The future benefit of these losses has not been recognized in the accounts.

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Significant components of the Company's unrecognized deferred tax assets and deferred tax liabilities are as follows:

	2015 \$	2014 \$
Deferred tax assets		
Non-capital loss carryforwards	3,808,210	2,660,792
Financing and share issue costs	317,138	77,773
Eligible capital property	657	227,013
Property and equipment and intangible assets	31,058	-
Deferred tax liabilities		
Property and equipment and intangible assets	-	(8,894)
Unrecognized deferred tax assets	<u>4,157,063</u>	<u>2,956,684</u>

21 Financial instruments

Financial instruments by category

	<u>2015</u>		
	Loans and receivables \$	Held-to- maturity \$	Total \$
Assets as per consolidated statement of financial position			
Cash and cash equivalents	6,798,770	-	6,798,770
Accounts receivable	205,961	-	205,961
	<u>7,004,731</u>	<u>-</u>	<u>7,004,731</u>
	Liabilities at FVTPL \$	Other financial liabilities \$	Total \$
Liabilities as per consolidated statement of financial position			
Accounts payable and accrued liabilities	-	994,723	994,723
Long-term debt	-	4,693	4,693
	<u>-</u>	<u>999,416</u>	<u>999,416</u>

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	2014		
	Loans and receivables \$	Held-to- maturity \$	Total \$
Assets as per consolidated statement of financial position			
Cash and cash equivalents	7,092,224	-	7,092,224
Accounts receivable	427,727	-	427,727
	<hr/>		<hr/>
	7,519,951	-	7,519,951
	<hr/>		<hr/>
	Liabilities at FVTPL \$	Other financial liabilities \$	Total \$
Liabilities as per consolidated statement of financial position			
Accounts payable and accrued liabilities	-	1,056,441	1,056,441
Long-term debt	-	11,585	11,585
	<hr/>		<hr/>
	-	1,068,026	1,068,026
	<hr/>		<hr/>

The carrying values of the short-term financial assets and financial liabilities approximate their fair values due to the short-term nature of the instruments.

Fair value estimation

The tables below analyze financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine fair value of an instrument are observable, the instrument is included in Level 2.

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are liquidity risk, credit risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

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Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. Liquidity risk is managed by maintaining adequate reserves and banking facilities and by closely monitoring forecast and actual cash flows. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and long-term debt.

The tables below categorize the Company's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2015			
	Less than 3 months \$	Between 3 months and 1 year \$	Between 1 and 5 years \$	Total \$
Accounts payable and accrued liabilities	994,723	-	-	994,723
Long-term debt	1,038	3,275	380	4,693
Convertible debentures	-	-	5,500,000	5,500,000
	<u>995,761</u>	<u>3,275</u>	<u>5,500,380</u>	<u>6,499,416</u>

	2014			
	Less than 3 months \$	Between 3 months and 1 year \$	Between 1 and 5 years \$	Total \$
Accounts payable and accrued liabilities	1,100,315	-	-	1,100,315
Long-term debt	3,936	2,956	4,693	11,585
	<u>1,104,251</u>	<u>2,956</u>	<u>4,693</u>	<u>1,111,900</u>

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed mainly to credit risk on its cash and cash equivalents and accounts receivable. The Company offers credit to its customers in the normal course of its operations. It continually assesses the credit risk of its customers and accounts for an allowance for doubtful accounts, if any. The credit risk on cash and cash equivalents is mitigated by the fact that they are in place with major Canadian financial institutions.

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Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed mainly to currency risk and interest rate risk. The exposures of the Company are monitored regularly by the Company's management.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has performed a sensitivity analysis on currency risk as at March 31, 2015 and March 31, 2014. A change in foreign exchange rates of 10% higher or lower will not have a significant impact on loss and comprehensive loss for the period.

The consolidated statement of financial position has amounts denominated in other currencies as follows:

	2015 \$	2014 \$
Cash		
US dollar	154	51
Euro	210,833	1,868
Accounts payable and accrued liabilities		
US dollar	-	29,608
Euro	-	9,209

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk. The Company has performed a sensitivity analysis on interest rate risk as at March 31, 2015 and March 31, 2014. A change in interest rates on borrowings of 1% higher or lower will not have a significant impact on loss and comprehensive loss for the period.

The Company is exposed to interest rate risk as follows:

Cash and cash equivalents	Floating rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Convertible debentures	As described in note 8
Long-term debt	As described in note 9

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Capital risk management

The common shares are managed as the capital of the Company for all periods concerned. The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time.

22 Subsequent events

On May 5, 2015, the Company announced that it has received a Notice of Deficiency – Withdrawal Letter from Health Canada regarding its new drug submission for Easyhaler Budesonide. The Company's file is eligible for the reconsideration process, which is part of normal regulatory actions available to sponsors. The Company has since filed such a request, as it believes that its filing has enough evidence to support regulatory approval.

On June 8, 2015, Pediapharm and G. Pohl-Boskamp GmbH & Co KG announced the extension of their exclusive Canadian distribution agreement for NYDA until at least 2021. The revised agreement includes additional renewal clauses and similar terms and conditions as were included in the previous agreement.