Pediapharm Inc.

Consolidated Financial Statements
March 31, 2018 and 2017
(expressed in Canadian dollars)

July 18, 2018

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 statement of financial position as at March 31, 2018 and 2017 and the consolidated statement of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, 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, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A125677

Pediapharm Inc.

Consolidated Statements of Financial Position

As at March 31, 2018 and 2017

(expressed in Canadian dollars)

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents		3,608,506	3,241,097
Accounts receivable	4	738,454	638,441
Prepaid expenses and deferred costs		98,795	17,681
Inventories	5	2,189,278	1,704,540
		6,635,033	5,601,759
Property and equipment	6	20,099	22,805
Intangible assets	7	2,602,330	2,103,077
		9,257,462	7,727,641
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	1,688,454	1,943,184
Interest payable		165,613	165,000
Convertible debentures	9	20,000	-
		1,874,067	2,108,184
Convertible debentures	9	4,345,627	4,323,821
		6,219,694	6,432,005
Shareholders' Equity			
Share capital	10	25,347,384	21,025,018
Contributed surplus	11, 12	4,902,565	3,862,379
Deficit		(27,212,181)	(23,591,761)
		3,037,768	1,295,636
		9,257,462	7,727,641

Approved by the Board of Directors

(Sylvain Chretien) Director — *Sylvain Chretien*

(Normand Chartrand) Director — *Normand Chartrand*

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

Pediapharm Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	Note	2018 $	2017 $
Revenue			
Products		10,006,437	5,951,474
Commissions		2,730	255,665
		10,009,167	6,207,139
Cost of sales	5	4,967,541	2,778,393
Gross profit		5,041,626	3,428,746
Selling and administrative expenses	11, 16	7,862,437	6,803,665
Depreciation and amortization	6, 7	14,294	23,994
Foreign exchange gain		(23,633)	(39,168)
Other income	3	-	(2,570,200)
		(7,853,098)	(4,218,291)
Operating loss		(2,811,472)	(789,545)
Financing costs	13	710,973	1,082,294
Interest income		(39,800)	(39,952)
		(671,173)	(1,042,342)
Net loss and comprehensive loss for the year		(3,482,645)	(1,831,887)
Net loss per share attributable to shareholders of the Company			
Basic and diluted		(0.041)	(0.025)
Weighted average number of common shares outstanding		85,239,321	72,634,209

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

Pediapharm Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	Note	Share capital				
		Common shares	**Amount $**	**Contributed surplus $**	**Deficit $**	**Total shareholders' equity $**
Balance – March 31, 2016		72,512,438	20,966,018	3,600,707	(21,759,874)	2,806,851
Loss and comprehensive loss for the year		-	-	-	(1,831,887)	(1,831,887)
Share-based compensation – Stock option plan	11	-	-	261,672	-	261,672
Issuance of shares for officer compensation	11	196,665	59,000	-	-	59,000
Balance – March 31, 2017		72,709,103	21,025,018	3,862,379	(23,591,761)	1,295,636
Loss and comprehensive loss for the year		-	-	-	(3,482,645)	(3,482,645)
Share-based compensation – Stock option plan	11	-	-	267,812	-	267,812
Issuance of units for private placement	10	14,705,883	4,359,892	640,108	-	5,000,000
Issuance costs	10	-	(37,526)	(5,509)	-	(43,035)
Extension of warrants	12	-	-	137,775	(137,775)	-
Balance – March 31, 2018		87,414,986	25,347,384	4,902,565	(27,212,181)	3,037,768

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

Pediapharm Inc.

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

(expressed in Canadian dollars)

	Note	2018 $	2017 $
Cash flows from			
Operating activities			
Net loss for the year		(3,482,645)	(1,831,887)
Adjustments for			
Depreciation of property and equipment	6	11,137	20,265
Amortization of intangible assets	7	220,025	31,602
Share-based compensation expense	11	267,812	320,672
Interest on convertible debentures	13	669,167	669,168
Gain on extension of convertible debentures maturity date	13	(475,702)	-
Convertible debenture interest accretion net of deferred financing cost amortization	13	517,508	413,126
Impairment loss on intangible assets	7	-	13,701
Interest income		(39,800)	(39,952)
		(2,312,498)	(403,305)
Changes in non-cash operating working capital items	17	(920,595)	(223,539)
Interest paid		(668,554)	(671,381)
Interest received		39,800	39,952
Net cash flows used in operating activities		(3,861,847)	(1,258,273)
Investing activities			
Purchases of property and equipment		(8,431)	(3,445)
Purchases of intangible assets		(719,278)	(438,679)
Net cash flows used in investing activities		(727,709)	(442,124)
Financing activities			
Proceeds from issuance of units	10	5,000,000	-
Issuance costs paid	10	(43,035)	-
Net cash flows generated by financing activities		4,956,965	-
Net change in cash and cash equivalents during the year		367,409	(1,700,397)
Cash and cash equivalents – Beginning of year		3,241,097	4,941,494
Cash and cash equivalents – End of year		3,608,506	3,241,097

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

(expressed in Canadian dollars)

1 Incorporation and nature of activities

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

The consolidated financial statements were authorized for publication by the Board of Directors on July 18, 2018.

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 CPA Canada Handbook – Accounting. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company has consistently applied the same accounting policies throughout all periods presented in these consolidated financial statements except for the newly adopted standards.

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value. In addition, the consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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.

(expressed in Canadian dollars)

New standards not yet adopted by the Company

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9 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, 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 assessed the impact of the adoption of IFRS 9 on its consolidated financial statements, and determined that no significant changes were expected.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The Company assessed the impact of adoption of IFRS 15 on its financial statements, by reviewing selected revenue arrangement and assessing the differences in accounting for such contracts under the new guidance as compared with current revenue accounting standards, and determined that no significant changes were expected. The Company will adopt the new guidance using the modified retrospective approach, under which the new guidance will be adopted retrospectively with the cumulative effect of initial application of the guidance recognized on the date of initial application (which will be April 1, 2018).

IFRS 16, Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS 16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

(expressed in Canadian dollars)

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 instruments 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 different assumptions are used, the value derived for the instruments could be significantly impacted. See notes 11 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 from the date of the distribution approval granted by Health Canada or from the date of the licence 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.

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 9 for the assumptions used to determine the fair value of the convertible debentures.

(expressed in Canadian dollars)

d) Returns provision

The returns provision is calculated using management's best estimate of products that will ultimately be returned by customers. The estimation of the returns provision is based on historical experience with returned products and is deducted from revenue. The estimated returns provision for the year ended March 31, 2018 was $108,271 (2017 – $95,831).

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 year-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of loss and comprehensive loss for the year. 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. Products are delivered by truck directly from the Company to customers located in Canada and are recognized as revenue when the ownership of the products are transferred to the customer. Revenues are recognized net of applicable rebates and after the following criteria have been met: (i) there is evidence of an arrangement; (ii) delivery was made; (iii) there is no continuing management involvement with the products; (iv) the price is fixed; and (v) the recovery of the consideration is probable.

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.

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

Raw materials and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(expressed in Canadian dollars)

Property and equipment

Property and equipment are 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	Between 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.

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.

(expressed in Canadian dollars)

Financial instruments

The Company classifies its financial instruments into the following categories: Loans and receivables; Held-to-maturity; Financial liabilities at fair value through profit or loss (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 statement 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 are 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 include 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.

Financial liabilities at FVTPL are initially recognized at fair value, and transaction costs are expensed immediately in the consolidated statement of loss and comprehensive loss. Gains and losses arising from changes in the fair value of financial liabilities at FVTPL are presented in the consolidated statement of loss and comprehensive loss in other income (loss) 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, interest payable and convertible debentures as other financial liabilities.

(expressed in Canadian dollars)

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.

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 reporting period. The tax expense for the fiscal year comprises current and deferred income tax. Tax expense is recognized in the consolidated statement of loss and 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 statement 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.

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. When the stock options are exercised, the Company issues new shares and the proceeds net of any directly attributable transaction costs are credited to share capital.

(expressed in Canadian dollars)

Share capital

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

Loss per share

Loss per share is calculated by dividing the net loss for the year attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year. 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 year 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 year. The Company has two categories of dilutive potential common shares: share-based compensation options and warrants. For the year ended March 31, 2018, share-based compensation options and warrants to acquire 15,900,304 common shares (2017 – 10,429,029) have been excluded from the diluted earnings per share calculation, since their inclusion would have had an anti-dilutive effect.

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 products sold and the marketing services offered to the pharmaceutical industry. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. All of the Company's assets are located in Canada.

3 Sale of US rights to Naproxen Suspension

On February 2, 2016, the Company signed a formal asset purchase agreement with an industry third party (the Acquirer) for the sale of the Company's US rights to the drug Naproxen Suspension in a transaction valued at approximately US$4,250,000 (the Transaction). Financial terms of the Transaction included an unconditional payment by the Acquirer of US$2,225,000 in cash ($3,134,249), which was received at closing and which was recognized as other income in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2016, as there were no further conditions to meet. In addition, there was a payment of US$2,000,000 in cash that was conditional on the Company being granted approval from the US Food and Drug Administration (FDA) of the manufacturing site transfer on or before September 30, 2016.

(expressed in Canadian dollars)

On May 11, 2016, the Company announced that it had received FDA approval regarding the manufacturing site transfer of Naproxen Suspension for the US market. This approval triggered the second and final payment of US$2,000,000 in cash ($2,570,200), which was recognized as other income in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2017.

4 Accounts receivable

	2018 $	2017 $
Trade accounts receivable, net of allowance for doubtful accounts of $30,000 (2017 – nil)	730,971	631,396
Sales taxes receivable	7,483	7,045
	738,454	638,441

No trade accounts receivable were impaired as at March 31, 2018 and 2017.

5 Inventories

	2018 $	2017 $
Raw materials	426,147	603,752
Finished goods	1,763,131	1,100,788
	2,189,278	1,704,540

For the year ended March 31, 2018, the cost of inventories sold included in cost of sales is $3,524,752 (2017 – $1,938,224).

(expressed in Canadian dollars)

6 Property and equipment

	Computer equipment $	Office furniture and equipment $	Total $
For the year ended March 31, 2017			
Opening net book value	22,035	17,590	39,625
Additions	3,445	-	3,445
Depreciation charge	(16,747)	(3,518)	(20,265)
Closing net book value	8,733	14,072	22,805
As at March 31, 2017			
Cost	112,803	51,865	164,668
Accumulated depreciation	(104,070)	(37,793)	(141,863)
Net book value	8,733	14,072	22,805
For the year ended March 31, 2018			
Opening net book value	8,733	14,072	22,805
Additions	8,431	-	8,431
Depreciation charge	(8,322)	(2,815)	(11,137)
Closing net book value	8,842	11,257	20,099
As at March 31, 2018			
Cost	121,234	51,865	173,099
Accumulated depreciation	(112,392)	(40,608)	(153,000)
Net book value	8,842	11,257	20,099

(expressed in Canadian dollars)

7 Intangible assets

	Licences $	Trademarks $	Software $	Total $
For the year ended March 31, 2017				
Opening net book value	1,702,348	1,800	5,553	1,709,701
Additions	438,679	-	-	438,679
Amortization charge	(27,873)	(300)	(3,429)	(31,602)
Impairment loss	(13,701)	-	-	(13,701)
Closing net book value	2,099,453	1,500	2,124	2,103,077
As at March 31, 2017				
Cost	2,387,954	4,500	33,830	2,426,284
Accumulated amortization	(288,501)	(3,000)	(31,706)	(323,207)
Net book value	2,099,453	1,500	2,124	2,103,077
For the year ended March 31, 2018				
Opening net book value	2,099,453	1,500	2,124	2,103,077
Additions	715,978	-	3,300	719,278
Amortization charge	(216,869)	(300)	(2,856)	(220,025)
Closing net book value	2,598,562	1,200	2,568	2,602,330
As at March 31, 2018				
Cost	3,103,932	4,500	37,130	3,145,562
Accumulated amortization	(505,370)	(3,300)	(34,562)	(543,232)
Net book value	2,598,562	1,200	2,568	2,602,330

As at March 31, 2018, the average remaining life of the licences was approximately 7 years (2017 – 8 years).

For the year ended March 31, 2018, a total of $216,868 was recognized in cost of sales (2017 – $27,873), and a total of $3,157 (2017 – $3,729) was recognized in depreciation and amortization in the consolidated statement of loss and comprehensive loss.

8 Accounts payable and accrued liabilities

	2018 $	2017 $
Accounts payable – Trade	734,617	1,298,114
Accrued liabilities	953,837	645,070
	1,688,454	1,943,184

(expressed in Canadian dollars)

9 Convertible debentures

On January 31, 2018, the Company announced it had entered into agreements to extend $5,480,000 of the total debentures issued to holders (Holders) in connection with the original private placement. The extension is to be one year in length, making the new maturity date March 30, 2020 (the New Maturity Date). Any such extensions that are not approved by the individual Holders will remain subject to the original terms of the debentures and shall mature on March 30, 2019 (the Original Maturity Date). A total of $20,000 was not extended and will therefore mature on the Original Maturity Date.

The extension of the debentures was not considered as a substantial modification of the terms of the existing financial liabilities and do not result in a derecognition of the original financial liabilities under IAS 39. The impact of the extension of the maturity date results in a gain of $475,702 in the consolidated statement of loss and comprehensive loss (note 13) due to the revaluation of the fair value with the New Maturity Date.

The convertible debentures bear interest at a rate of 12% per annum paid quarterly in cash, and they 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 20 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 2,000,000 shares. The Company may at any time after the second anniversary of the date of issue, which was March 30, 2015, and prior to maturity, repay the principal amount subject to an early repayment fee of 2% of the principal amount repaid. Issuance costs were deducted from the convertible debentures balance and are amortized using the effective interest method.

The convertible debentures are a compound financial instrument under IAS 32, 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 component.

10 Share capital

Authorized and issued

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

(expressed in Canadian dollars)

Non-brokered private placement

On May 24, 2017, the Company closed a non-brokered private placement of 14,705,883 units at a price of $0.34 per unit for gross proceeds of $5,000,000 with 9346-4626 Québec Inc., a private company operating as Transican (the subscriber). The total gross proceeds were allocated between common shares and warrants for amounts of $4,359,892 and $640,108, respectively.

Each unit comprises one common share in the capital of the Company and ½ of one common share purchase warrant of the Company. Each whole warrant entitles the subscriber to purchase one common share at a price of $0.51 per share until May 24, 2020. The fair value of the warrants, using the Black-Scholes model, was value at $0.0435 per ½ warrant. The assumptions used were expected volatility of 66.5%, a risk free rate of 0.78%, an expected life of three years, and an exercise price of $0.51 per common share. No commissions or fees were paid in connection with the offering, other than $43,035 in legal fees.

As a result of the closing of the transaction, the subscriber has become a new shareholder of the Company as a holder of more than 10% of the issued and outstanding common shares.

11 Share-based compensation

Stock option plan

	2018		2017	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Options outstanding – Beginning of year	7,096,029	0.37	4,781,414	0.42
Granted	1,175,000	0.30	2,475,000	0.30
Expired	(150,000)	0.34	(61,442)	0.40
Forfeited	(180,832)	0.30	(98,943)	0.40
Options outstanding – End of year	7,940,197	0.36	7,096,029	0.37
Options exercisable – End of year	5,214,362	0.39	3,573,689	0.41

As at March 31, 2018, the options outstanding under the plan have a weighted average remaining life of approximately 6.5 years (2017 – 8 years).

(expressed in Canadian dollars)

Exercise price	Number of options outstanding
0.30	3,725,002
0.34	1,442,500
0.46	2,772,695
	7,940,197

a) Stock option plan

On January 22, 2014, the Company adopted a stock option plan for common shares. The plan provided that the terms and pricing of the options would be established by the directors.

The Company's stock option plan is a "rolling plan" under which the Company may grant options for a maximum of 10% of the issued and outstanding common shares of the Company at the time of the grant. The number of common shares that may be reserved under the stock option plan automatically increases or decreases as the number of issued and outstanding common shares of the Company increases or decreases.

On July 25, 2016, the Company granted 2,475,000 stock options to directors, officers, employees and consultants of the Company. The options were issued with an exercise price of $0.30 per share and have a term of 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 July 27, 2017, the Company granted 975,000 stock options to certain directors, officers and employees of the Company. The options were issued with an exercise price of $0.30 per share and have a term of 10 years. In addition, the options have varied vesting provisions such that they vest either over two or four years. The Company also granted 100,000 stock options to Direct Financial Strategies and Communications Inc. at an exercise price of $0.30 per share with a term of two years. These options will vest over a 12-month period at a rate of 25% per quarter.

On September 22, 2017, the Company granted of 100,000 stock options to a new director. The options were issued with an exercise price of $0.30 per share and have a term of 10 years. In addition, the options have vesting provisions such that they vest over two years.

As at March 31, 2018, a total of 801,302 common shares remained authorized for issuance under the stock option plan.

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

(expressed in Canadian dollars)

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:

	2018	**2017**
Risk-free interest rate	1.28% to 1.67%	0.56% to 0.74%
Volatility*	62%	72%
Expected life	2 to 6 years	2 to 6 years
Expected dividend yield	Nil	Nil
Expected forfeiture rate	5%	5%
Fair value per option granted	$0.10 to $0.17	$0.12 to $0.19

* Expected share price volatility was calculated using the Company's historical volatility.

For the year ended March 31, 2018, the share-based compensation expense with respect to these options, as well as the vesting of previously granted options, amounted to $267,812 (2017 – $261,672) and is included in selling and administrative expenses in the consolidated statement of loss and comprehensive loss.

b) Payment of bonuses through issuance of shares

On July 25, 2016, the Company's Board of Directors approved the payment of bonuses to certain officers of the Company for their contribution during the year ended March 31, 2016. A portion of the bonuses was paid through the issuance of an aggregate of 196,665 common shares of the Company at a deemed price of $0.30 per share for a total of $59,000.

(expressed in Canadian dollars)

12 Warrants

	2018			2017		
	Number of warrants	Weighted average exercise price $	Fair value $	Number of warrants	Weighted average exercise price $	Fair value $
Warrants outstanding – Beginning of year	3,333,000	**0.33**	343,979	3,692,091	0.33	367,606
Issued as part of private placement	7,352,942	**0.51**	640,108	-	-	-
Extension of warrants [1)]	-	**-**	137,775	-	-	-
Expired	-	**-**	-	(359,091)	0.33	(23,627)
Warrants outstanding – End of year	10,685,942	**0.45**	1,121,862	3,333,000	0.33	343,979

Warrants outstanding as at March 31, 2018:

	Number of warrants outstanding	Price $	Expiry
Warrants	12,120	0.33	March 2019
	3,320,880	0.33	March 2020
	7,352,942	0.51	May 2020
	10,685,942		

1) In connection with the extension of the convertible debentures' term (note 9), the Company also extended the expiry date of the warrants held by the Holders, who accepted to extend the term of the convertible debentures by one year, until March 30, 2020. As a result, a total of 3,320,880 warrants were extended. Using the Black-Scholes option-pricing model, an additional value of $137,775 was calculated and recorded as an increase in contributed surplus with a concomitant decrease in deficit.

13 Financing costs

	2018 $	2017 $
Gain on extension of convertible debentures maturity date	(475,702)	-
Interest on convertible debentures	669,167	669,168
Convertible debenture interest accretion net of deferred financing cost amortization	517,508	413,126
	710,973	1,082,294

(expressed in Canadian dollars)

14 Employee benefit expense

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

	Note	2018 $	2017 $
Salaries and benefits		2,045,446	1,814,857
Share-based compensation	11	42,684	(35,392)
		2,088,130	1,779,465

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

	Note	2018 $	2017 $
Key management compensation			
Short-term employee benefits and consulting fees		1,490,692	1,314,039
Share-based compensation	11	225,128	297,064
		1,715,820	1,611,103

Key management compensation is included in selling and administrative expenses.

15 Related party transactions

Transactions with related parties during the years ended March 31, 2018 and 2017, and amounts due to or from these parties as at March 31, 2018 and 2017 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, 2018, the Company incurred no management fees (2017 – $43,810) with a company owned by the current Chief Financial Officer of the Company through a global exclusive licensing agreement (note 16).

For the year ended March 31, 2018, the Company incurred a total of $32,900 in interest expense on the convertible debentures with 9346-4646 Québec Inc. and a Board member, and a total of $9,000 is included in interest payable as at March 31, 2018.

For the year ended March 31, 2018, the Company incurred a total of $27,950 in legal fees with a company controlled by a Board member (2017 – $16,282) and a total of nil is included in accounts payable and accrued liabilities as at March 31, 2018 (2017 – $3,663).

(expressed in Canadian dollars)

16 Global exclusive licensing agreement

On September 19, 2016, the Company signed an exclusive licensing agreement (the licensing agreement) with 9346-4626 Québec Inc., a company owned by Mr. Gerard Leduc (the licensor), a globally known pharmaceutical executive, for the drug Relaxa® (the product). Under the terms of the licensing agreement, the Company has the exclusive right to manufacture, promote, market, sell and distribute the product globally. In return, the Company will pay the licensor royalties based on annual net sales of the product. Pursuant to the terms of the licensing agreement, the Company has the right to acquire the product at any time until the seventh anniversary of the effective date of the licensing agreement. The aggregate price payable for the product during such term shall be $5,000,000 plus a 2% royalty on the annual net sales of the product up to a maximum of $1,500,000 (the option exercise price). Moreover, for the term commencing on the fifth anniversary of the effective date of the licensing agreement and ending on seventh anniversary of the effective date of the licensing agreement, the licensor will have the option to sell the product to the Company for the same option exercise price.

Following the closing of the non-brokered private placement in May 2017 (note 10), 9346-4646 Québec Inc. is now considered as a significant shareholder of the Company. Since this date, the Company incurred a total of $226,723 in royalties to 9346-4646 Québec Inc., and a total of $55,850 is included in the accounts payable and accrued liabilities as at March 31, 2018.

17 Consolidated statement of cash flows

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

	2018 $	2017 $
Decrease (increase) in		
Accounts receivable	(100,013)	(338,333)
Prepaid expenses and deferred costs	(81,114)	35,127
Inventories	(484,738)	(1,095,082)
Increase (decrease) in		
Accounts payable and accrued liabilities	(254,730)	1,174,749
	(920,595)	(223,539)

(expressed in Canadian dollars)

18 Selling and administrative expenses

	2018 $	2017 $
Shared-based compensation expenses	267,812	261,672
Sales and marketing expenses	4,845,976	3,938,706
Business development and regulatory affairs	973,156	1,092,494
General administrative	1,775,493	1,510,793
	7,862,437	6,803,665

19 Commitments

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

	$
2019	79,525

Total rent expense for the year ended March 31, 2018 was $120,597 (2017 – $125,018).

20 Income taxes

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

	2018 $	2017 $
Statutory federal and provincial tax	(929,866)	(492,778)
Increase (decrease) in taxes recoverable resulting from:		
Effect of change in valuation allowance	858,861	354,598
Non-deductible share-based compensation	71,506	86,261
Non-deductible expenses for tax purposes	12,170	7,512
Other differences	(12,671)	44,407
	-	-

The Canadian combined statutory rate as at March 31, 2018 was 26.7% (2017 – 26.9%).

(expressed in Canadian dollars)

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	4,864,409
2036	3,260,192
2037	3,000,407
2038	3,382,642
	23,724,549

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

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

	2018 $	**2017** $
Deferred tax assets		
Non-capital loss carry-forwards	6,052,377	5,361,724
Financing and share-issue costs	61,408	-
Property and equipment and intangible assets	215,268	148,684
Deferred tax liabilities		
Financing and share-issue costs	-	(40,180)
Unrecognized deferred tax assets	6,329,053	5,470,228

(expressed in Canadian dollars)

21 Financial instruments

Financial instruments by category

		2018
	Loans and receivables $	**Other financial liabilities $**
As per consolidated statement of financial position		
Cash and cash equivalents	3,608,506	-
Accounts receivable	730,971	-
Accounts payable and accrued liabilities	-	1,688,454
Interest payable	-	165,613
Convertible debentures	-	4,365,627
	4,339,477	6,219,694

		2017
	Loans and receivables $	**Other financial liabilities $**
As per consolidated statement of financial position		
Cash and cash equivalents	3,241,097	-
Accounts receivable	631,396	-
Accounts payable and accrued liabilities	-	1,943,184
Interest payable	-	165,000
Convertible debentures	-	4,323,821
	3,872,493	6,432,005

The carrying values of the financial assets and financial liabilities approximate their fair values as at March 31, 2018 and 2017.

Fair value estimation

The different levels of the fair value hierarchy are 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).

(expressed in Canadian dollars)

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.

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 convertible debentures.

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 tables are the contractual undiscounted cash flows.

				2018
	Less than 3 months $	**Between 3 months and 1 year $**	**Between 1 and 5 years $**	**Total $**
Accounts payable and accrued liabilities	1,688,454	-	-	1,688,454
Interest payable	165,613	-	-	165,613
Convertible debentures	-	20,000	5,480,000	5,500,000
	1,854,067	20,000	5,480,000	7,354,067

				2017
	Less than 3 months $	**Between 3 months and 1 year $**	**Between 1 and 5 years $**	**Total $**
Accounts payable and accrued liabilities	1,923,039	20,145	-	1,943,184
Interest payable	165,000	-	-	165,000
Convertible debentures	-	-	5,500,000	5,500,000
	2,088,039	20,145	5,500,000	7,608,184

(expressed in Canadian dollars)

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.

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, 2018 and 2017. A change in foreign exchange rates of 10% higher or lower will not have a significant impact on loss and comprehensive loss for the year.

The consolidated statements of financial position have amounts denominated in other currencies as follows:

	2018 **$**	**2017** **$**
Cash and cash equivalents		
US dollar	9,150	84,784
Euro	7,458	579,509

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, 2018 and 2017. 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 year.

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 9

(expressed in Canadian dollars)

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 or units from time to time.