CONCORDIA HEALTHCARE CORP

2014 FIRST QUARTER REPORT

Management's Discussion and Analysis
For the three months ended March 31, 2014

Dated: May 14, 2014

*The following Management's Discussion and Analysis ("**MD&A**") was prepared as of May 14, 2014 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the three months ended March 31, 2014 and the audited consolidated financial statements and related notes for the year ended December 31, 2013 of Concordia Healthcare Corp. ("**Concordia**" or the "**Company**"), which were prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Amounts are stated in thousands of U.S. Dollars, which is the functional currency of the Company, unless otherwise noted.*

There is no comparative information in this MD&A for the three months ended March 31, 2013. Although the company was incorporated in December of 2012 it did not conduct any transactions in 2012 and did not commence operations until May of 2013 when it acquired its legacy pharmaceutical business from Shionogi, Inc.

Some of the statements contained in this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. See "Caution Regarding Forward-Looking Statements" for a discussion of risks, uncertainties, and assumptions relating to these statements. For a description of risks relating to the Company, refer to the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Certain measures used in this MD&A do not have any standardized meaning under IFRS. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. See "Selected Financial Information", ""Results of Operations" and "Non-IFRS Financial Measures".

Forward-looking Statements

This MD&A may contain forward-looking information. This forward-looking information is not based on historical facts but rather on the expectations of Concordia's management ("**Management**") regarding the future growth of the company, its results of operations, performance and business prospects and opportunities. Forward-looking information may include financial and other projections, as well as statements regarding future plans, objectives or economic performance, or the assumptions underlying any of the foregoing. This MD&A uses words such as "will", "expects", "anticipates", "intends", "estimates", or similar expressions to identify forward-looking information. Such forward-looking information reflects the current beliefs of Management based on information currently available to them.

Forward-looking information included in this MD&A is based in part, on assumptions that may change, thus causing actual future results or anticipated events to differ materially from those expressed or implied in any forward-looking information. Such assumptions include that:

- Concordia will sustain or increase profitability, and will be able to fund its operations with existing capital, and/or it will be able to raise additional capital to fund future acquisitions;
- Concordia will be able to attract and retain key personnel;
- Concordia will be able to acquire any necessary technology, products or businesses and effectively integrate such acquisitions;
- Concordia will be successful in developing and clinically testing products under development;
- Concordia will be successful in obtaining all necessary approvals for commercialization of its products from the U.S. Food and Drug Administration, the Canadian Therapeutic Products Directorate or other regulatory authorities;
- The results of continuing and future safety and efficacy studies by industry and government agencies relating to Concordia's products will be favorable;
- Concordia's products will not be adversely impacted by competitive products and pricing;
- Raw materials and finished products necessary for CHI's products will continue to be available;
- Concordia will be able to maintain and enforce the protection afforded by any patents or other intellectual property rights;
- Concordia's products will be successfully licensed to third parties to market and distribute such products on favorable terms;

- Concordia's key strategic alliances, out licensing and partnering arrangements, now and in the future, will remain in place and in force; the general regulatory environment will not change in a manner adverse to the business of Concordia;
- the tax treatment of Concordia and its subsidiaries will remain constant and the Company will not become subject to any material legal proceedings.

Management cautions that the foregoing list of assumptions is not exhaustive. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements expressed or implied by the forward-looking information. Actual results, performance or achievement could differ materially from that expressed in, or implied by, any forward-looking information in this release, and, accordingly, investors should not place undue reliance on any such forward-looking information. Further, any forward-looking information speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking information to reflect the occurrence of unanticipated events, except as required by law including applicable securities laws. New factors emerge from time to time and the importance of current factors may change from time to time and it is not possible for Management to predict all of such factors, changes in such factors and to assess in advance the impact of each such factor on the business of Concordia or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information contained in this MD&A.

Critical Accounting Estimates

In preparing the Company's consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods.

Significant estimates made by Management include: gross to net deductions; allowance for doubtful accounts; useful lives of amortizable tangible and intangible assets; weighted average cost of capital; determining the fair value of share-based payments and the provision for income taxes and realizability of deferred tax assets. On an ongoing basis, Management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by Management to make these estimates do not reasonably reflect future activity, the Company's consolidated financial statements could be materially impacted.

Chargebacks

The provision for chargebacks is a significant and complex estimate used in the recognition of revenue. In the USA, Concordia sells its products directly to wholesale distributors. The wholesale distributors sell directly to independent pharmacies, managed care organizations, hospitals and group purchasing organizations ("indirect customers"). The difference between the price that Concordia sells to the wholesaler and the price the wholesaler sells to the indirect customer is referred to as a chargeback. The provision for chargebacks is calculated based upon historical experience. As sales are made to large wholesale customers, Concordia continually monitors the provision for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated provisions.

Returns

The provision for returns is a significant and complex estimate used in the recognition of revenue. Concordia has a returns policy that allows wholesalers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of sales revenue. Concordia estimates provisions for returns based upon historical experience, which represents Management's best estimate. Concordia continually monitors provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

Rebates
The provision for rebates is a significant and complex estimate used in the recognition of revenue. Rebates are granted to healthcare authorities and under contractual arrangements with certain customers. Products sold in the USA are covered by various programs (such as Medicaid and Medicare) under which products are sold at a discount. Concordia estimates its provisions for rebates based on current contractual terms and conditions as well as the historical experience, changes to business practices and credit terms. Concordia continually monitors the provision for rebates and makes adjustments when it believes that actual rebates may differ from establishes provisions. All rebates are recognized in the period in which the underlying sales are recognized as a reduction of sales revenue.

Other price adjustments
The provision for other price adjustments is a significant and complex estimate used in the recognition of revenue. Other price adjustments are credits issued by the wholesaler to reflect various decreases in the selling price. The price that Concordia sells to the Wholesaler is known as the Wholesale Acquisition Cost ("**WAC**"). Decreases to WAC are discretionary decisions made by the wholesalers to reflect competitive market conditions. Amounts recorded for other price adjustments are based upon estimated declines in market prices. Concordia regularly monitors these and other factors and re-evaluates the provision as additional information becomes available.

Share-based compensation
IFRS 2 requires that each installment of options be treated as a separate share option grant with graded-vesting features, forfeitures are estimated at time of grant and revised if actual forfeitures are likely to differ from previous estimates and options granted to parties other than employees are measured at their fair values. Share-based compensation is recognized as compensation in the statement of comprehensive earnings based on their fair values at the time of the grant, with the compensation expense amortized over the vesting period for the grantee. Concordia uses the Black-Scholes option pricing model to price its options in computing share based compensation, which requires certain assumptions on numerous variables including the stock price volatility rate for a publicly held corporation. Due to the absence of a company specific volatility rate given the limited trading history of the Company's stock, Concordia chose comparable rates to other companies in the pharmaceutical industry. The selection of a different option pricing model (binomial model) and a different volatility rate could produce a different value for share based compensation, which could impact results.

Impairment of non-financial assets
The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. The Company also reviews, on an annual basis, non-financial assets with indefinite life for impairment. If the recoverable amount of the respective non-financial assets is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, Management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

Income taxes
Concordia is subject to income taxes in different jurisdictions and therefore use judgment to determine the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Provisions for uncertain tax positions are recorded based on Management's estimate of the most likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period that such determination is made.

Fair value of derivative financial instruments
The fair values of derivative instruments that are not traded in an active market are determined using valuation techniques. Concordia uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The use of different assumptions may cause actual results to vary and may cause significant adjustments.

Company Overview

Concordia Healthcare Corp. is an integrated healthcare company with three operating segments:

1. **The Legacy Pharmaceuticals Division**

   The Legacy Pharmaceuticals Division focuses on the management and acquisition of legacy pharmaceutical products, both with patent life and exclusivity remaining (pre-legacy) and products that have reached full maturity but continue on a predictable revenue path, collectively referred to as legacy pharmaceutical products. Regardless of stage of the life cycle the targeted products have a well-established record of safety and efficacy and a history of stable, predictable prescription demand.

2. **The Orphan Drugs Division**

   The Orphan Drugs Division is intended to provide growth opportunities through the expansion into new indications for existing products or the acquisition of approved orphan drugs and further expansion within their identified markets and new indications.

3. **The Specialty Healthcare Distribution Division**

   The Speciality Healthcare Distribution Division is a nation-wide provider of diabetes testing supplies, pharmaceuticals, diabetic shoes, orthotic braces and other home medical equipment in the United States.

These three business units are run as separate divisions but are inter-related. The cash-flow from legacy pharmaceutical products is used to fund operations, provide capital for future acquisitions and is also intended to fund the development of new indications for orphan drugs. The specialized healthcare distribution division provides additional growth and cash-flow generation. Additionally, through its registered pharmacy operation, this business is intended to provide a distribution capability for specialty drugs once acquired and/or developed. All three of these divisions are operated through a corporate organization that provides executive leadership, industry experience and financial and capital markets experience.

These three divisions are identified as reportable segments under IFRS for the purposes of disclosure in the Company's audited consolidated financial statements.

History

Qualifying Transaction

On December 20, 2013 the Company entered into an amalgamation agreement (the "**Amalgamation Agreement**") and completed its qualifying transaction (the "**Qualifying Transaction**"). The Qualifying Transaction proceeded by way of a "three-cornered" amalgamation among Mercari Acquisition Corp. ("**Mercari**"), a capital pool company listed on the NEX board of the Toronto Stock Exchange ("**TSX**") Venture Exchange, Mercari Subco Inc., a wholly-owned subsidiary of Mercari, and Concordia Healthcare Inc., ("**CHI**"), a private Ontario corporation incorporated on December 5, 2013. On December 18, 2013, and prior to the completion of the Qualifying Transaction, Mercari changed its name to "Concordia Healthcare Corp." and completed a consolidation of its share capital on a basis of one post-consolidation common share for every 48.08 common shares existing immediately before the consolidation. The Qualifying Transaction resulted in a reverse takeover of Mercari by the shareholders of CHI (the "**Reverse Takeover**").

After the Qualifying Transaction, the shareholders of CHI held 98.5% of the shares of the amalgamated corporation, and for accounting purposes CHI has been deemed the acquirer. The Qualifying Transaction constitutes a reverse takeover but does not meet the definition of a business combination under International Financial Reporting Standards ("**IFRS**") 3; accordingly the Company has accounted for the transaction in accordance with IFRS 2. The assets and liabilities of Mercari have been included in the Company's consolidated balance sheet at fair value, which approximate their pre-combination carrying values.

Mercari's shares were delisted from the NEX board of the TSX Venture Exchange. Concordia Healthcare Corp.'s shares were listed for trading on the TSX under the symbol "CXR" on December 24, 2013.

Financings and Acquisitions

Term Facilities

On May 6 2013, CHI entered into two loan and security agreements: (1) a loan under a senior loan agreement (the "**Senior Loan Agreement**") in the principal amount of $19.0 million bearing interest at 12% per annum, calculated daily, maturing on October 30, 2015 with interest paid monthly in arrears, and (2) two loans under a subordinate loan agreement (the "**Subordinate Loan Agreement**") in the aggregate principal amount of $5.15 million bearing interest at 18% per annum, calculated daily, maturing on October 30, 2015 with interest paid monthly in arrears only if the loan under the Senior Loan Agreement is repaid. The Senior Loan Agreement included a working capital loan of $3.0 million where the interest rate was 12%. The working capital loan was repaid and cancelled on August 7, 2013.

Credit Facility

On September 19, 2013 the Company entered into a senior secured revolving credit facility (the "**Revolving Facility**") in the principal amount of $3.0 million. The revolving credit facility is for working capital requirements and is repayable on demand. Loans under the Revolving Facility are repayable without any prepayment penalties, and bear interest at a floating rate based on the HSBC's US Base Rate plus 2.25% per annum.

Acquisitions

Concordia Pharmaceuticals Inc. ("**CPI**"), a wholly owned subsidiary of the Company, acquired its legacy pharmaceutical business assets from Shionogi on May 6, 2013. These legacy pharmaceutical assets are comprised of three FDA approved drugs: Kapvay, which is used to effectively treat Attention Deficit Hyperactivity Disorder ("**ADHD**"), Ulesfia, which is a topical treatment for pediculosis (head lice), and Orapred, an anti-inflammatory used in the treatment of certain pulmonary diseases such as asthma. The purchase price paid to Shionogi was $28.7 million and included $25.6 million paid for the Existing Portfolio, $2.3 million paid for the inventory including raw material, work in process and finished goods and $0.8 million in contingent consideration, subject to meeting certain performance metrics.

Concordia Healthcare (USA) Inc. ("**CHUSA**"), a wholly owned subsidiary of the Company, acquired its specialty healthcare distribution business assets from Global on October 25, 2013 with an effective date of August 1, 2013. The Company's specialty healthcare distribution business is a United States national Internet and mail-order provider of diabetes testing supplies, pharmaceuticals, diabetic shoes, orthotic braces and other home medical equipment. This business also includes a full-service pharmacy with full fulfillment capacity and can ship medications across the United States. The Company acquired the specialty healthcare distribution business for total consideration of $13.2 million comprised of $5.0 million in cash, a vendor note with a fair value on the date of acquisition of $5.6 million and an additional earn-out payment with an estimated present value on the date of acquisition of $2.6 million payable in Common Shares subject to meeting certain performance metrics. In addition, 1 million common shares of the Company at US$3.00 per share were issued as finder's fees in connection with the acquisition of the Specialty Healthcare Distribution Division.

Concordia Labs Inc. ("**CLI**"), a wholly owned subsidiary of Concordia, holds certain legacy pharmaceuticals that have the potential to, through further development, be used to treat additional indications, specifically those indications that may qualify for orphan drug status. On November 8, 2013 the Company entered into the Pinnacle Purchase Agreement. Pursuant to the Pinnacle Purchase Agreement, on December 20, 2013, the Company acquired 100% of the shares of Pinnacle for total consideration of $58.0 million comprised of $32.7 million of cash consideration, $5.0 million of CHI's common shares issued at a price of $5.63 per common share (being a 10% discount to the CAD $6.25 per Subscription Receipt issued as part of the Private Placement), 10 annual cash payments with an estimated present value of $5.0 million and milestone and other contingency payments with an estimated value of $15.3 million. The acquisition of Pinnacle was financed through a combination of available cash, which included net proceeds of CAD $34.5 million received by the Company through the Private Placement of Subscription Receipts of CHI, which closed on December 19, 2013.

Private Placements

On May 5, 2013 CHI completed a private placement of 6,000,000 common shares at a price of $1.00 per share. Total proceeds from the transaction were $6 million.

On various dates in August of 2013, CHI completed private placements of a total of 1,166,666 shares at a price of $3.00 per share. Total proceeds from the transaction were $3.5 million.

On December 19, 2013 CHI completed a private placement (the "**Private Placement**") of subscription receipts (the "**Subscription Receipts**") conducted by a syndicate of agents. Pursuant to the Private Placement, CHI issued 5,520,000 Subscription Receipts at a price of $6.25 Canadian Dollars ("**CAD**") per Subscription Receipt for total gross proceeds to the Company of CAD $34.5 million. Each Subscription Receipt was exchanged for one common share of CHI, which common shares were then exchanged for Common Shares of Concordia Healthcare Corp. on a one-for-one basis pursuant to the Qualifying Transaction.

Recent Events

Financing

On March 11, 2014 the Company announced the completion of a short-form prospectus offering, on a "bought deal" basis of 5,750,000 common shares of Concordia, which includes the exercise by the Underwriters of an over-allotment option of 15%, for aggregate gross proceeds of CAD $67,562,500. Net proceeds to the Company, after the deduction of underwriters' fees were CAD $63,508,750.

The Offering was completed at a price per Common Share of CAD $11.75 by a syndicate of underwriters co-led by GMP Securities L.P. and Canaccord Genuity Corp. and including Barclays Capital Canada Inc., Beacon Securities Limited and Cormark Securities Inc.

Acquisition of Donnatal®

On March 20, 2014 the Company announced that it had entered into a definitive agreement to acquire Donnatal®, an adjunctive therapy in the treatment of irritable bowel syndrome ("IBS") and acute enterocolitis, from a privately held specialty pharmaceutical company carrying on business as Revive Pharmaceuticals ("Revive Pharmaceuticals").

The Company has agreed to acquire Donnatal® for US$200 million in cash and an aggregate of 4,605,833 common shares of Concordia, representing approximately 16.17% of the Company's outstanding common shares on a non-diluted basis (approximately 14.96% on a fully-diluted basis) after giving effect to the acquisition. Revive Pharmaceuticals will also be entitled to have a representative nominated to the board of directors of the Company provided that it maintains a certain shareholding level in the Company. Completion of the acquisition is subject to customary closing conditions (including approval of the TSX), and acceptable financing.

Management anticipates that the deal will close in May of 2014. Management plans to pay for the cash component of the acquisition through a combination of available cash and debt financing. Accordingly, the Company has entered into a commitment letter with GE Capital, Healthcare Financial Services and its affiliated entities ("GE"). Pursuant to the commitment letter, GE has agreed to provide a secured credit facility having a principal amount of US$195 million, consisting of a $170 million term loan and a $25 million operating line (the "Credit Facility"). The Credit Facility will be secured by the assets of the Company and the assets of its subsidiaries. The Credit Facility is subject to a number of customary conditions, including entering into definitive documentation.

Repayment of Debt

On March 28, 2014 the Company repaid in full its senior and subordinate debt. Principal amounts totalling $15.7 million were repaid along with $0.9 million of accrued interest and $2.4 million of minimum interest obligations for early extinguishment of the debt.

Selected Annual Financial Information

The following table sets forth selected unaudited financial information for Concordia as at and the prior three quarters ended March 31, 2014.

	Q1-2014	Q4-2013	Q3-2013	Q2-2013
Revenue	16,810	16,684	14,725	9,038
Gross profit	12,956	12,628	12,147	7,334
Operating income	4,939	292	7,909	5,784
Net income	(1,836)	(7,083)	5,370	4,144
Cash	77,973	42,899	23,426	14,100
Total assets	194,146	170,765	79,370	45,208
Total liabilities	76,045	109,243	59,727	40,786
EBITDA (1)	3,546	(4,320)	7,912	5,784
Adjusted EBITDA (1)	5,903	6,831	8,554	5,784

Notes:

(1) Represents a non-IFRS measure. For the relevant definitions and reconciliation to reported results, see "Non-IFRS Financial Measures".

Concordia's operating results for the past four quarters reflect the Company's growth through strategic acquisitions in 2013. Revenues for the current quarter were greater than the prior quarter due to the inclusion of a full quarter of contribution from Pinnacle Biologics (which was acquired late in the fourth quarter of 2013), offset by the expected impact of a generic entrant to Kapvay, which took place in the fourth quarter of 2013.

The increases in cash and total asset balances reflect the equity raise in the first quarter, offset by debt repayments in the quarter, as well as the favorable impacts of recent asset acquisitions.

Results of Operations – Three months ended March 31, 2014

The following table sets forth the unaudited consolidated results of operations of the Company for the year ended March 31, 2014:

	Q1-2014	Q1-2013
Revenue	$ 16,810	$ -
Cost of sales	3,854	-
Gross profit	**12,956**	**-**
Operating expenses		
General & administrative	4,691	-
Selling and marketing	944	-
Research and development	1,418	-
Share-based compensation	756	-
Acquisition related costs	174	-
Depreciation	34	-
Total operating expenses	**8,017**	**-**
Operating income	**4,939**	**-**
Other (income) and expense		
Interest expense	4,705	-
Change in fair value of contingent consideration	567	-
Amortization of intangible assets	580	-
Foreign exchange loss	865	-
Other (income)	(5)	-
Loss Before Tax	**(1,773)**	**-**
Income taxes	63	-
Net Loss	**$(1,836)**	**$ -**
EBITDA (1)	**3,546**	**-**
Adjusted EBITDA (1)	**5,903**	**-**

Notes:

(1) Represents a non-IFRS measure. For the relevant definitions and reconciliation to reported results, see “Non-IFRS Financial Measures”.

Factors Affecting Results from Operations

Revenue and Gross Profit

The following table sets forth the unaudited revenue and gross profit by Operating Segment for the three months ended March 31, 2014:

	Legacy Pharmaceuticals	Orphan Drugs	Specialty Healthcare Distribution	Total
Q1-2014				
Revenue	$ 9,309	$ 3,570	$ 3,931	$ 16,810
Cost of sales (including royalties)	2,210	700	944	3,854
Gross profit	**$ 7,099**	**$ 2,870**	**$ 2,987**	**$ 12,956**
Q1-2013				
Revenue	$ -	$ -	$ -	$ -
Cost of sales (including royalties)	-	-	-	-
Gross profit	**$ -**	**$ -**	**$ -**	**$ -**

Legacy Pharmaceuticals Division

Net revenues for the Legacy Pharmaceuticals Division were $9.3 million for the three months ended March 31, 2014 and related to the sales of Kapvay, Orapred ODT, Orapred OS and Ulesfia after subtracting deductions from Gross Sales such as chargebacks, returns and allowances, rebates and other deductions that are customary in the industry.

Cost of sales for the three months ended March 31, 2014 were $2.2 million and reflect the costs of active pharmaceutical ingredients, excipients, packaging and freight costs and royalties. Gross Profit for the quarter ended March 31, 2014 was $7.1 million.

In the fourth quarter of 2013, as expected by Management, a generic product to Kapvay entered the market, which reduced branded sales of Kapvay by $2.7 million from the prior quarter.

Orphan Drugs Division

Net revenues for the Orphan Drugs Division were $3.6 million for the three months ended March 31, 2014 and primarily represent the sales of Photofrin, Lasers and Fibers after deductions from Gross Sales that are customary in the industry.

Cost of sales for the three months ended March 31, 2014 were $0.7 million and are associated cost of manufactured products sold, warehousing, quality assurance and freight.

Gross profit for the three months ended March 31, 2014 was $2.9 million.

Specialty Healthcare Distribution Division

Net revenues for the Specialty Healthcare Distribution division were $3.9 million for the three months ended March 31, 2014 and related primarily to sales and distribution of diabetes testing supplies and orthotics for diabetic patients.

Costs of sales for the three months ended March 31, 2014 were $0.9 million and are the cost of products, warehousing and freight.

Gross profit for the three months ended March 31, 2014 was $3.0 million.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2014 were $4.7 million and reflect the costs related to salaries and benefits, professional and consulting fees, public company, transition services agreement expenses, travel, facility leases and other administrative expenditures.

Research and Development Expenses

Research and development costs for the three months ended March 31, 2014 were $1.4 million reflect actual costs incurred for clinical trial activities, product development, professional and consulting fees and services associated with the activities of the Medical, Clinical and Scientific Affairs functional areas of the Company. Also included are quality assurance costs and the regulatory compliance and drug safety costs (Pharmacovigilence). Research and development costs for the three months ended March 31, 2014 included $0.3 million related to initiation of the clinical trial in cholangiocarcinoma with Photofrin.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended March 31, 2014 were $0.9 million and reflect costs incurred in the marketing, promotion and selling of the Company's legacy pharmaceutical products and the Company's diabetic testing and orthotic products.

Share Based Compensation

Share based compensation expense for the three months ended March 31, 2014 was $0.8 million and relates to the fair value of share based option awards to management and directors of the Company. The Company issued 765,000 options to management and employees during the three months ended March 31, 2014. The fair value is calculated using the Black-Scholes option-pricing model. Assumptions that affect the application of the fair value model include the determination of volatility of the Company's common shares, risk-free interest rate and the life of the options issued.

Depreciation Expense

Depreciation expense for the three months ended March 31, 2014 was $0.03 million and represents the depreciation on equipment, fixtures and leasehold improvements.

Acquisition Related Costs

Acquisition related costs for three months ended March 31, 2014 were $0.2 million and relate to legal, accounting and professional fees directly incurred by the Company for the acquisition of Pinnacle Biologics Inc. and other business development activities.

Interest Expense

Interest expense for the three months ended March 31, 2014 was $4.7 million and is primarily related to interest and accretion interest incurred on the Company's Term facilities as described above.

On March 28, 2014 the Company repaid in full its senior and subordinate debt. The agreements required minimum interest payments to the extent that the debt was repaid on, or prior to, certain agreed upon dates.

Change in Fair Value of Contingent Consideration

The change in the fair value of contingent consideration expensed in the three months ended March 31, 2014 was $0.6 million, which is largely related to the change in value of contingent obligations related to the Pinnacle transaction.

Amortization of Intangible Assets

The amortization of intangible assets expensed in the three months ended March 31, 2014 was $0.6 million, and related to the amortization of intellectual property and a customer list.

Foreign Exchange Loss

The foreign exchange loss for the three months ended March 31, 2014 was $0.9 million and is primarily the charge related to the conversion of the January 2014 equity raise from Canadian to US dollars.

Income Taxes

The income tax expense for the three months ended March 31, 2014 was $0.06 million and represents the provision for income taxes in Canada, US and Barbados operations.

Liquidity and Capital Resources

Cash Flows

Management believes that ongoing operations and associated cash flow provide sufficient liquidity to support Concordia's business operations for at least the next 12 months.

As at March 31, 2014 the Company held cash and cash equivalents of $78.0 million and had an additional $3.0 million available from the Revolving Facility, which provides further flexibility to meet any unanticipated cash requirements.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable are all due within the current operating period.

In managing the Company's capital, Management estimates future cash requirements by preparing a budget and a multi-year plan for review and approval by the Company's Board of Directors. The budget establishes the approved activities for the upcoming year and estimates the costs associated with those activities. The multi-year plan estimates future activity along with the potential cash requirements and is based upon Management's assessment of current progress along with the expected results from the coming years' activity. Budget to actual variances are prepared and reviewed by management and are presented quarterly to the Board.

The purpose of liquidity management is to ensure that there is sufficient cash to meet all the financial commitments and obligations of Concordia as they come due. Since inception Concordia has financed its cash requirements primarily through the issuances of securities, short-term borrowings, medium-term debt as well as income from operations.

The below table sets forth the Company's net cash flows provided by and used in operating, investing and financing activities:

	For the three months ended March 31,	
	2014	**2013**
Net cash used in operating activities	$ (3,042)	$ -
Net cash used in investing activities	(280)	-
Net cash provided by financing activities	38,396	-
Increase in Cash	**35,074**	**-**
Beginning Cash	42,899	-
Ending Cash	**$ 77,973**	**$ -**

<u>Net Cash Used in Operating Activities</u>

Net cash used in operating activities was $3.0 million for the three months ended March 31, 2014 and was primarily related to the payment of accounts payable and deposits on inventory purchases.

<u>Net Cash Used in Investing Activities</u>

Net cash used in investing activities was $0.3 million for the three months ended March 31, 2014 and was primarily due to the acquisition of fixed assets and the payment of purchase consideration.

<u>Net Cash Provided by Financing Activities</u>

Net cash provided by financing activities was $38.4 million for the three months ended March 31, 2014 and was primarily driven by net proceeds from issuance of common stock of $57.0 million as well as $0.7 million in proceeds from the exercise of options. Proceeds from the equity issuance were used to repay the remaining Senior and Subordinated Debt plus accrued interest amounting to a combined $19.3 million.

Indebtedness

Term Facilities and Warrants

Credit Facility

On September 19, 2013 the Company entered into a senior secured revolving credit facility (the "Revolving Facility") in the principal amount of $3.0 million with HSBC. Pursuant to the Revolving Facility, the Company has granted security over all of its assets.

The Company has not borrowed against this facility and there was no balance outstanding against this facility as at March 31, 2014.

Contractual Obligations

The following table summarizes Concordia's material contractual obligations as at March 31, 2014:

As at March 31, 2014	TOTAL	2014	2015	2016	2017	2018	Thereafter
Finance lease obligations	$ 14	$ 14	$ -	$ -	$ -	$ -	$ -
Operating leases	731	322	157	144	81	27	-
Purchase obligations	2,300	775	765	760	-	-	-
Research grants	1,433	877	556	-	-	-	-
Total Contractual Obligations	$ 4,478	$ 1,988	$ 1,478	$ 904	$ 81	$ 27	$ -

Related Party Transactions

The Company had the following related party transactions during the three months ended March 31, 2014:

	For the Three Months Ended March 31, 2014
Legal fees paid or payable to firms affiliated with directors [a]	42
	$ 42

(a) Legal fees include professional services for advice relating to intellectual property matters.

Contingencies

Following the closing of the Shionogi Transaction as additional consideration for the sale, transfer, conveyance and assignment of the assets and the grant of the Ulesfia license, the Company is required to pay Shionogi thirty percent (30%) of worldwide net sales of Kapvay that exceeds $1.5 million (in the aggregate) during each calendar quarter commencing with the calendar quarter beginning October 1, 2013 until such payments equal $6.0 million in the aggregate.

As part of the consideration for the Global Medical Direct Transaction, the Company is obligated to pay an additional earn-out payment of up to $4.0 million payable in Common Shares subject to meeting certain performance metrics. The earn-out payment provisions provide that on each earn-out calculation date, if the aggregate adjusted EBITDA of Global exceeds $7.0 million for the preceding year then an earn-out payment of common shares will be made which is equal in value to the aggregate adjusted EBITDA of Global for the preceding year multiplied by 14.285714%. The number of common shares to be paid is calculated by dividing the dollar value of the earn-out payment by the dollar volume weighted average trading price of the Company's common shares. The aggregate earn-out payments are subject to a $4.0 million cap.

As part of the consideration for the Pinnacle Biologics Inc. Transaction, the Company is obligated to pay additional payments of up to $5.0 million based on the achievement of certain milestones related to clinical trials. The Company is also obligated to pay additional earn-out payments equal to 15% of worldwide sales of Photofrin in excess of $25.0 million over the 10 calendar years following the Company's acquisition of Pinnacle.

Royalties

The Company has a commitment to pay royalties on sales of each of the drugs acquired as part of the Shionogi Transaction at certain prescribed rates. These royalties are payable on a quarterly basis.

Guarantees

All directors and officers of the Company, and each of the Company's various subsidiaries, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable Concordia entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the particular Concordia entity or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction.

Litigation and Arbitration

In the normal course of business the Company may be the subject of litigation claims. As at March 31, 2014 there are no claims against the Company.

Future Accounting Standards

Financial Instruments

IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to Hedge Accounting, representing a new hedge accounting model, have been added to IFRS 9 in November 2013. The new model represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion. The company is currently assessing the impact of, and when to adopt, IFRS 9.

Consolidated Financial Statements

In October 2012, IASB issued amendments to IFRS 10 to require investment entities to measure subsidiaries at fair value through profit or loss. In addition, IFRS 12 has been amended to include disclosure requirements for investment entities. IAS 27 has been amended to require investment entities to measure investments in subsidiaries at fair value through profit or loss when separate financial statements are presented. The amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The adoption of the amendments to this standard is not expected to have a material impact on the Company’s financial statements.

Financial Instruments: Presentation

IAS 32 Financial Instruments: Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria. The amendment is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The company is currently assessing the impact of, and when to adopt, IFRS 9.

Impairment of Assets

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted when the entity has already applied IFRS 13. The adoption of the amendments to this standard is not expected to have a material impact on the Company’s financial statements.

Non IFRS Financial Measures

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analyses of the Company's financial information reported under IFRS. Management uses non-IFRS measures such as EBITDA and Adjusted EBITDA to provide investors with a supplemental measure of the Company's operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess its ability to meet future debt service, capital expenditure, and working capital requirements.

The definition and reconciliation of EBITDA and Adjusted EBITDA used and presented by the Company to the most directly comparable IFRS measures follows below.

EBITDA

EBITDA is defined as net income adjusted for net interest expense, income tax expense, depreciation and amortization. Management uses EBITDA to assess the Company's operating performance. A reconciliation of net income to EBITDA is provided below.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA adjusted for one-time charges associated with acquisitions, one-time charges associated with the Company's listing on the TSX, non-recurring gains, non-cash items such as unrealized gains / losses on derivative instruments, change in fair value of contingent consideration, and realized / unrealized gains / losses related to foreign exchange revaluation. Management uses Adjusted EBITDA as the key metric in assessing business performance when comparing actual results to budgets and forecasts. Management believes adjusted EBITDA is an important measure of operating performance and cash flow, and provides useful information to investors because it highlights trends in the underlying business that may not otherwise be apparent when relying solely on IFRS measures.

The table below sets forth the reconciliation of net income to EBITDA and to Adjusted EBITDA for the year ended March 31, 2014:

	Q1-2014	Q1-2013
Net Loss	**$ (1,836)**	**$ -**
Interest expense	4,705	-
Income taxes	63	-
Depreciation expense	34	-
Amortization of intangible assets	580	-
EBITDA	**$ 3,546**	**$ -**
Change in fair value of contingent consideration	567	-
Share based compensation	756	-
Business acquisition related costs	174	-
Foreign exchange loss	865	-
Other (income)	(5)	-
Adjusted EBITDA	**$ 5,903**	**$ -**

Outstanding Share Data

As at March 31, 2014 and May 14, 2014 the Company had 23,861,246 and 23,883,326 common shares issued and outstanding, respectively, and there were 2,261,440 and 2,289,360 options outstanding, respectively, that entitle the holder to purchase one common share per share option of the Company.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

The Company is required to review and report on the effectiveness of its disclosure controls and procedures ("**DC&P**") in accordance with National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", ("**NI 52-109**") issued by the Canadian Securities Administrators. NI 52-109 requires a Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") to certify that they are responsible for establishing and maintaining DC&P for the issuer, that DC&P have been designed and are effective in providing reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's DC&P and that their conclusions about the effectiveness of those DC&P at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues within a company have been detected. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, the Company's DC&P are effective in providing reasonable, not absolute, assurance that the objectives of its disclosure control system have been met.

Internal Controls over Financial Reporting

NI 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("**ICFR**") for the issuer, that the ICFR have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and that the issuer has disclosed any change in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its ICFR.

The design and operating effectiveness of the Company's ICFR were evaluated by Management in accordance with "Internal Controls over Financial Reporting – Guidance for Smaller Public Companies", as published by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), and NI 52-109, as at March 31, 2014.

Assessment of DC&P and ICFR

Based on the evaluation of the Company's DC&P and ICFR as at March 31, 2014, the CEO and CFO concluded that the Company's DC&P and ICFR were effective.

Unaudited Condensed Interim Consolidated Financial Statements of

Concordia Healthcare Corp.

March 31, 2014

Concordia Healthcare Corp.

Condensed Interim Consolidated Balance Sheet

As at March 31, 2014
(Stated in thousand of U.S. Dollars)
(Unaudited)

	March 31, 2014	December 31, 2013 (Audited)
Assets		
Current		
Cash	$ 77,973	$ 42,899
Accounts receivable (Note 3)	10,063	23,012
Inventory (Note 4)	3,719	4,030
Prepaid expenses and other current assets	4,317	2,407
Deferred income taxes	127	24
	96,199	72,372
Fixed assets (Note 5)	578	444
Intangible assets (Note 6)	61,120	61,700
Goodwill (Note 7)	36,249	36,249
Total Assets	**$ 194,146**	**$ 170,765**
Liabilities		
Current		
Accounts payable	$ 3,422	$ 21,669
Accrued liabilities	3,358	7,734
Provisions (Note 8)	26,918	24,208
Royalties payable	3,755	3,093
Taxes payable	1,182	987
Senior and subordinate debt (Note 9)	-	14,966
Current portion of notes payable (Note 10)	662	662
Current portion of purchase consideration payable (Note 11)	2,751	2,786
	42,048	76,105
Notes payable (Note 10)	5,297	5,104
Purchase consideration payable (Note 11)	22,277	21,599
Deferred taxes	6,408	6,415
Other liabilities	15	20
Total Liabilities	**76,045**	**109,243**
Shareholders' Equity		
Share capital (Note 12)	115,511	57,521
Reserve for share based compensation	1,993	1,555
Accumulated other comprehensive income	2	15
Retained earnings	595	2,431
Total Shareholders' Equity	**118,101**	**61,522**
Total Liabilities and Shareholders' Equity	**$ 194,146**	**$ 170,765**

Commitments and contingencies (Note 16)
Subsequent events (Note 20)

Approved and authorized for issue by the Board of Directors on May 14, 2014.

"Jordan Kupinsky"
Director **(Signed)**

"Mark Thompson"
Director **(Signed)**

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

Concordia Healthcare Corp.

Condensed Interim Consolidated Statement of Income and Comprehensive Income
For the Three Months Ended March 31, 2014
(Stated in thousand of U.S. Dollars)
(Unaudited)

		Three Months Ended March 31, 2014
Revenue	$	16,810
Cost of sales		3,854
Gross profit		**12,956**
Operating expenses		
General and administrative		4,691
Selling and marketing		944
Research and development		1,418
Share-based compensation		756
Business acquisition related costs		174
Depreciation expense		34
Total operating expenses		**8,017**
Operating income		**4,939**
Other income and expense		
Interest and accretion expense		4,705
Change in fair value of contingent consideration		567
Amortization of intangible assets		580
Foreign exchange (gain) loss		865
Other (income) expense		(5)
Loss Before Tax		**(1,773)**
Income Taxes		63
Net Loss		**(1,836)**
Other comprehensive loss		
Exchange differences on translation of foreign operations		(13)
Total comprehensive loss for the period	**$**	**(1,849)**
Loss Per Share (Note 13)		
Basic loss per share	$	(0.09)
Fully Diluted loss per share	$	(0.09)

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

Concordia Healthcare Corp.

Condensed Interim Consolidated Statement of Changes in Equity

For the Three Months Ended March 31, 2014
(Stated in thousand of U.S. Dollars)
(Unaudited)

	Share Capital					
	Number of Shares	**Amount**	**Reserve for Share Based Compensation**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total Shareholders' Equity**
Balances, December 31, 2013	17,985,889	$ 57,521	$ 1,555	$ 15	$ 2,431	$ 61,522
Issuance of Common Stock during the period	5,750,000	56,998	-	-	-	56,998
Exercise of options	125,357	992	(318)			674
Share Based Compensation Expense	-	-	756	-	-	756
Net loss	-	-	-	-	(1,836)	(1,836)
Exchange differences on translation of foreign operations	-	-	-	(13)	-	(13)
Balances, March 31, 2014	**23,861,246**	**$ 115,511**	**$ 1,993**	**$ 2**	**$ 595**	**$ 118,101**

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

Concordia Healthcare Corp.

Condensed Interim Consolidated Statement of Cash Flows

For the Three Months Ended March 31, 2014
(Stated in thousand of U.S. Dollars)
(Unaudited)

		Three Months Ended March 31, 2014
Cash flows from operating activities		
Net loss after tax	$	(1,836)
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization		617
Accretion and interest expense		4,705
Share based compensation expense		756
Change in fair value of contingent consideration		567
		4,872
Changes in operating assets and liabilities, excluding effect of acquisitions		
Accounts receivable		12,949
Inventory		311
Prepaid expenses and other current assets		(1,910)
Accounts payable		(18,259)
Accrued liabilities		(4,377)
Provisions		2,710
Royalties payable		662
Net cash used in operating activities		**(3,042)**
Cash flows from investing activities		
Purchase of fixed assets		(171)
Purchase consideration paid		(109)
Net cash used in investing activities		**(280)**
Cash flows from financing activities		
Net proceeds from issuance of common stock		56,998
Proceeds from exercise of options		674
Interest paid		(3,534)
Repayment of senior and subordinated debt		(15,742)
Net cash provided by financing activities		**38,396**
Net change in cash		35,074
Cash at beginning of period		42,899
Cash at end of period	**$**	**77,973**

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

1. Description of Business and General Information

Concordia Healthcare Corp. (the "Company" or "Concordia") is an integrated healthcare company that targets three areas: (a) legacy pharmaceutical products; (b) specialized healthcare distribution that services the growing diabetic market; and (c) the acquisition and/or development of orphan drugs.

These three business units are run as separate divisions but are inter-related. The cash-flow from legacy pharmaceutical products is used to fund operations and is also intended to fund the expansion of indications for potential orphan drugs. The specialized healthcare distribution division provides additional growth and cash-flow generation. Additionally, through its registered pharmacy operation, this business is intended to provide a specialty distribution capability for orphan drugs once acquired and/or developed. The three business units were acquired during 2013 and are expected to provide the Company with an increased market share of the related products, as well as savings in costs through economies of scale.

All three of these divisions are operated through a corporate organization that provides executive leadership, industry experience and financial and capital markets experience.

On December 20, 2013 the Company entered into an amalgamation agreement (the "**Amalgamation Agreement**") and completed its qualifying transaction (the "**Qualifying Transaction**"). The Qualifying Transaction proceeded by way of a "three-cornered" amalgamation among Mercari Acquisition Corp. ("**Mercari**"), a capital pool company listed on the NEX board of the Toronto Stock Exchange Venture Exchange, Mercari Subco Inc., a wholly-owned subsidiary of Mercari, and Concordia Healthcare Inc., ("**CHI**"), a private Ontario corporation incorporated on December 5, 2012. On December 18, 2013, Mercari changed its name to "Concordia Healthcare Corp." and completed a consolidation of its share capital on a basis of one post-consolidation common share for every 48.08 common shares existing immediately before the consolidation. The Qualifying Transaction resulted in a reverse takeover of Mercari by the shareholders of CHI (the "**Reverse Takeover**").

After the Qualifying Transaction, the shareholders of CHI held 98.5% of the shares of the amalgamated corporation, and for accounting purposes CHI was deemed to be the acquirer. The Qualifying Transaction constitutes a reverse takeover but does not meet the definition of a business combination under International Financial Reporting Standards ("**IFRS**") 3, Business Combinations; accordingly the Company has accounted for the transaction in accordance with IFRS 2, Share-based Payment. The assets and liabilities of Mercari have been included in the Company's consolidated balance sheet at fair value, which approximate their pre-combination carrying values.

Mercari's shares were delisted from the NEX board of the TSX Venture Exchange. Concordia Healthcare Corp.'s shares were listed for trading on the TSX under the symbol "CXR" on December 24, 2013.

The registered and head office of the Company is located at 277 Lakeshore Rd. East, Suite 302, Oakville, Ontario, L6J 1H9.

2. Significant Accounting Policies

(a) Basis of Presentation

These condensed interim consolidated financial statements for the three months ended March 31, 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Concordia's annual financial statements as at December 31, 2013.

CHI was incorporated on December 5, 2012, however, the entity was not capitalized and did not commence operations until May of 2013. As a result there are no transactions to report for the three-month period ended March 31, 2013. The condensed interim consolidated statement of income and comprehensive income, changes in equity, and cash flows have been prepared for the three month period ended March 31, 2014, with no comparative information presented.

(b) New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The nature and impact of each new standard or amendment is described below:

Consolidated Financial Statements

The amendments to IFRS 10 Consolidated financial statements require investment entities to measure subsidiaries at fair value through profit or loss. In addition, IFRS 12 Disclosure of interests in other entities has been amended to include disclosure requirements for investment entities. IAS 27, Separate Financial Statements has been amended to require investment entities to measure investments in subsidiaries at fair value through profit or loss when separate financial statements are presented. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

Financial Instruments: Presentation

IAS 32 Financial Instruments: Presentation was amended to address inconsistencies identified in applying some of the offsetting criteria for Financial Assets and Financial Liabilities. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

Impairment of Assets

IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

(Stated in thousand of U.S. Dollars)

3. Accounts Receivable

	As at March 31, 2014	As at December 31, 2013
Accounts Receivable	$ 10,477	$ 23,373
Allowance for Doubtful Accounts	(414)	(361)
Net Accounts Receivable	**$ 10,063**	**$ 23,012**

The Company recorded an additional allowance for doubtful accounts of $53 during the period. There were no write-offs recorded during the period.

4. Inventory

	As at March 31, 2014	As at December 31, 2013
Finished goods	$ 2,890	$ 2,713
Raw materials and work in process	1,411	1,634
Obsolete inventory	(582)	(317)
Inventory (net of obsolescence reserve)	**$ 3,719**	**$ 4,030**

Inventory amounts charged to cost of sales during the quarter is $1,444 ($5,813 for the year ended December 31, 2013). There were no inventory write-downs charged to cost of sales during the quarter, other than the current reserve.

(Stated in thousand of U.S. Dollars)

5. Fixed Assets

Cost	**Computers and IT Equipment**	**Office Furniture and Fixtures**	**Leasehold Improvements**	**Equipment**	**As at March 31, 2014**
Opening Balance	$ 28	$ 90	$ 28	$ 343	$ 489
Additions	5	32	-	134	171
Dispositions	-	-	-	-	-
Total	**$ 33**	**$ 122**	**$ 28**	**$ 477**	**$ 660**
Depreciation					
Opening Balance	$ 2	$ 3	$ -	$ 40	$ 45
Additions	2	8	3	24	37
Dispositions	-	-	-	-	-
Total	**4**	**11**	**3**	**64**	**82**
Net Book Value	**$ 29**	**$ 111**	**$ 25**	**$ 413**	**$ 578**

Cost	**Computers and IT Equipment**	**Office Furniture and Fixtures**	**Leasehold Improvements**	**Equipment**	**As at December 31, 2013**
Opening Balance	$ -	$ -	$ -	$ -	$ -
Additions	28	90	28	343	489
Dispositions	-	-	-	-	-
Total	**$ 28**	**$ 90**	**$ 28**	**$ 343**	**$ 489**
Depreciation					
Opening Balance	$ -	$ -	$ -	$ -	$ -
Additions	2	3	-	40	45
Dispositions	-	-	-	-	-
Total	**2**	**3**	**-**	**40**	**45**
Net Book Value	**$ 26**	**$ 87**	**$ 28**	**$ 303**	**$ 444**

(Stated in thousand of U.S. Dollars)

6. Intangible Assets

	Brands and Trademarks	Customer List	Intellectual Property	As at March 31, 2014
Opening Balance	$ 26,020	$ 2,880	$ 32,800	$ 61,700
Additions	-	-	-	-
Amortization	-	(170)	(410)	(580)
Total	**$ 26,020**	**$ 2,710**	**$ 32,390**	**$ 61,120**

	Brands and Trademarks	Customer List	Intellectual Property	As at December 31, 2013
Opening Balance	$ -	$ -	$ -	$ -
Additions	26,020	3,000	32,800	61,820
Amortization	-	(120)	-	(120)
Total	**$ 26,020**	**$ 2,880**	**$ 32,800**	**$ 61,700**

Brands and trademarks were part of the business assets acquired from Shionogi Inc. ("Shionogi") on May 6, 2013. The brands and trademarks are indefinite life intangible assets and are therefore not amortized, and will be tested for impairment annually at year-end.

The intangible asset related to the customer list was acquired effective August 1, 2013 by CHUSA from Global Medical Direct LLC and affiliated entities (collectively "Global"). The customer list is subject to amortization and has been determined to have a useful life of 4 years and 5 months. Amortization of $120 and $170 has been recorded in the year ended December 31, 2013 and the three months ended March 31, 2014, respectively.

The intellectual property was acquired on December 20, 2013 as part of the acquisition of Pinnacle Biologics Inc. and its subsidiaries. The intellectual property is amortized over a period of 20 years. Amortization of $410 has been recorded during the three months ended March 31, 2014.

The Company performs its annual impairment tests at year-end.

(Stated in thousand of U.S. Dollars)

7. Goodwill

	As at March 31, 2014	As at December 31, 2013
Opening balance	$ 36,249	$ -
Additions	-	36,249
Impairment	-	-
Total	**$ 36,249**	**$ 36,249**

The carrying value of goodwill is reviewed at each reporting date to determine whether there exist any indications of impairment. As at March 31, 2014 there was no indications of impairment and no impairment loss has been recognized.

8. Provisions

The below table sets forth movements in the Company's provisions balance during the period ended March 31, 2014 and the year ended December 31, 2013:

	As at March 31, 2014	As at December 31, 2013
Opening Balance	$ 24,208	$ -
Additions	4,110	49,775
Utilization	(1,400)	(25,567)
Closing Balance	**$ 26,918**	**$ 24,208**

The closing balance relates to provisions made to estimate the liabilities arising from chargebacks, returns, rebates and other price adjustments. Although these estimates and provisions relate to revenue recognition transactions, namely the sales of products, the payments made for the underlying transactions are made directly to the claimants concerned and not to the original customer. Payments are expected within 12 months from the balance sheet date. Invoices received for such charges and estimates are shown in the Accounts Payable when received. The provision is for the uninvoiced portion of the charges and estimates.

9. Debt Financing and Warrants

Term Facilities and Warrants

On May 6 2013, the Company entered into two loan and security agreements: (1) a loan under a senior loan agreement (including a working capital loan) (the "Senior Loan Agreement") in the principal amount of $19,000 bearing interest at 12% per annum, calculated daily, maturing on October 30, 2015 with interest paid monthly in arrears, and (2) two loans under a subordinate loan agreement (the "Subordinate Loan Agreement") in the aggregate principal amount of $5,150 bearing interest at 18% per annum, calculated daily, maturing on October 30, 2015 with interest paid monthly in arrears only if the loan under the Senior Loan Agreement is repaid. The Senior Loan Agreement included a working capital loan of $3,000 where the interest rate was 12%. The working capital loan was repaid and cancelled on August 7, 2013.

The debt featured mandatory repayments based on free cash flow generated by the business as defined in the Senior Loan Agreement and the Subordinate Loan Agreement, calculated monthly. The loans were subject to a prepayment feature and repayment on demand at any time had certain events of default occurred. For the period ended and March 31, 2014 no such defaults occurred. The Company had granted security over all of its assets.

In connection with the transaction, the lenders were also issued warrants exercisable for an aggregate of 1,875,000 common shares of Concordia at an exercise price of $1.00 for a period of 5 years. The warrants also provided for a cashless exercise option in which the settlement price would be calculated using the volume weighted average trading price of the Company's common shares on the TSX for the three-day period immediately prior to the date of exercise. Warrants issued to the lender were initially valued at $4,531 and recorded as a derivative financial instrument.

A pricing model with observable market based inputs was used to estimate the fair value of all the warrants issued. The variables used to compute the values were as follows: an expected life of five years; a risk free rate of 0.78%; a volatility rate of 78.6%; and an exercise price of $1.0. The warrants had an average fair value of $2.41 per warrant.

On October 25, 2013, additional warrants were issued to one of the lenders exercisable for an aggregate of 39,465 common shares of Concordia. These warrants were exercisable for a period of 5 years at an exercise price of $3.00, and contained a similar cashless exercise option. These additional warrants were valued at $76.

A pricing model with observable market based inputs was used to estimate the fair value of the warrants issued. The variables used to compute the values were as follows: an expected life of five years; a risk free rate of 1.63%; a volatility rate of 79.9%; and an exercise price of $3.0. The warrants had an average fair value of $1.93 per warrant.

On December 20, 2013, immediately prior to the Company's listing on the TSX, all of the warrants were exercised by the warrant holders under the cashless exercise option. The settlement price of the cashless exercise was CAD $6.25, representing the opening per share price of the Company's stock upon its listing on the TSX. Upon the cashless exercise, the warrants were revalued to their fair market value, which was calculated as $9,255. The fair value was determined to be equal to the share price on that day. The increase in fair market value of the warrants from their initial valuations was recorded as an expense of $4,648 in the year ended December 31, 2013.

(Stated in thousand of U.S. Dollars)

9. Debt Financing and Warrants (continued)

Term Facilities and Warrants (continued)

The two loan and security agreements have been segregated into their respective debt and warrant components, the debt component representing the present value of the debt, and the warrant derivative financial instrument representing the fair value of the warrants. The debt component is accreted to the face value of the loan over the expected life of the loan using the effective interest method. The debt component of the loan is presented net of financing costs of $1,100. The financing costs are recognized as an expense over the term of the loan. Interest expense and accretion expense amount to $2,890 and $1,420 respectively for the period ended March 31, 2014 (March 31, 2013 – nil). The effective interest rate has been determined to be 51.32%.

At March 28, 2014, the long-term debt was fully repaid.

Senior and subordinated debt as at March 31, 2014 and December 31, 2013 are summarized as follows:

	As at March 31, 2014	As at December 31, 2013
Face value of the loans on issuance	$ 21,150	$ 21,150
Less:		
Fair value of warrants issued	(4,607)	(4,607)
Transaction costs	(1,100)	(1,100)
Book value upon issuance	15,443	15,443
Repayment of principal	(21,150)	(5,408)
Accretion	5,707	4,287
Carrying value	-	14,322
Accrued interest	-	644
Senior and Subordinate Debt	**$ -**	**$ 14,966**

Credit Facility

On September 19, 2013 the Company entered into a senior secured revolving credit facility (the "Revolving Facility") in the principal amount of $3,000. The revolving credit facility is for working capital requirements and is repayable on demand. Loans under the Revolving Facility are repayable without any prepayment penalties, and bear interest at a floating rate based on the HSBC's US Base Rate plus 2.25% per annum.

Pursuant to the Revolving Facility, the Company has granted security over all of its assets.

The Company has not borrowed against this facility and there is no balance outstanding against this facility as at March 31, 2014.

(Stated in thousand of U.S. Dollars)

10. Notes Payable

		As at March 31, 2014		As at December 31, 2013
Notes payable issued related to acquisition of Global	$	5,959	$	5,766
Less: Current portion		(662)		(662)
Long-term portion of Notes payable	**$**	**5,297**	**$**	**5,104**

The notes payable of $5,959 as at March 31 2014 ($5,766 as at December 31, 2013) represents the notes issued by the Company related to the acquisition of Global. The notes are unsecured, have a total face value of $7,000 and a coupon interest rate of 6%. The notes have been recorded at the present value of expected payments with a market representative interest rate of 12%. Interest expense and accretion expense amount to $169 and $23 respectively for the period ended March 31, 2014 ($124 and $17 for the year ended December 31, 2013). The effective interest rate has been determined to be 13.67%.

Principal repayments are due subject to the achievement of certain EBITDA thresholds.

11. Purchase Consideration Payable

		As at March 31, 2014		As at December 31, 2013
Contingent purchase consideration				
Due to Shionogi Inc.	$	792	$	792
Due to former owner of Global medical Direct LLC		2,532		2,532
Due to former owners of Pinnacle Biologics Inc. (1)		15,892		15,326
Total contingent purchase consideration	**$**	**19,216**	**$**	**18,650**
Non-contingent purchase consideration				
Fair value of annual payments due to former owners of Pinnacle Biologics Inc. (2)	$	5,204	$	5,019
Consideration payable assumed on acquisition of Pinnacle Biologics Inc.		608		716
Total non-contingent purchase consideration	**$**	**5,812**	**$**	**5,735**
Total purchase consideration payable	**$**	**25,028**	**$**	**24,385**
Less: Current portion		(2,751)		(2,786)
Purchase consideration payable	**$**	**22,277**	**$**	**21,599**

(1) As part of the consideration for the acquisition of Pinnacle Biologics Inc., the Company is obligated to pay additional payments of up to $5,000 based on the achievement of certain milestones related to clinical trials. The Company is also obligated to pay additional earn-out payments equal to 15% of worldwide sales of Photofrin in excess of $25,000 over the 10 calendar years following the Company's acquisition of Pinnacle. The fair value of these obligations as at March 31, 2014 and December 31, 2013 is $15,892 and $15,326, respectively. The change in fair value from December 31, 2013 of $567 has been recorded as an expense in the current period.

(2) As part of the consideration for the acquisition of Pinnacle Biologics Inc., the Company is obligated to make 10 annual payments of $1,000, with the first payment due on December 31, 2014. The obligation is subordinated and is not subject to interest. The obligation has been recorded at the present value of required payments with a market representative interest rate of 15%. Interest expense amounted to $186 for the period ended March 31, 2014.

(Stated in thousand of U.S. Dollars)

11. Purchase Consideration Payable (continued)

An estimate of the range of outcomes for the contingent purchase consideration is as follows:

Contingent Purchase Consideration Payable	Lower range	Upper range
Due to Shionogi	$Nil	$6,000
Due to former owner of Global Medical Direct LLC	$Nil	$4,000
Due to former owners of Pinnacle Biologics Inc.	$5,000	$42,500

12. Share Capital

The Company is authorized to issue an unlimited number of common shares.

On May 5, 2013 CHI completed a private placement of 6,000,000 common shares at a price of $1.00 per share. Total proceeds from the transaction were $6,000.

On various dates in August of 2013, CHI completed private placements of a total of 1,166,666 shares at a price of $3.00 per share. Total proceeds from the transaction were $3,500.

On October 25, 2013 CHI issued an additional 1,000,000 common shares as compensation for consulting services and finder's fees related to the Global Medical transaction described in Note 5. The value of the consulting services and finder's fees was $3,000. The value was based on recent private placements for the shares of the Company at $3 each.

On December 19, 2013 CHI completed a private placement (the "Private Placement") of subscription receipts (the "Subscription Receipts") conducted by a syndicate of agents. Pursuant to the private placement, CHI issued 5,520,000 Subscription Receipts at a price of CAD $6.25 Canadian Dollars per Subscription Receipt. Each Subscription Receipt was exchanged for one common share of CHI, which common shares were then exchanged for Common Shares of Concordia Healthcare Corp. on a one-for-one basis pursuant to the Company's Qualifying Transaction. Net proceeds from the transaction were $29,563 after deducting transaction expenses and underwriters' fees of $2,846.

In connection with the Private Placement, the Company issued 220,800 agent's options (the "Agent's Options") to the syndicate of agents that conducted the Private Placement. Each Agent Option is exchangeable for one common share of the Company at an exercise price of CAD $6.25 for a period of one year. The Agent's Options have been valued using a Black-Scholes option-pricing model at $422 and this amount has been offset against the net proceeds from the Private Placement.

A pricing model with observable market based inputs was used to estimate the fair value of the options issued. The variables used to compute the values were as follows: an expected life of one year; a risk free rate of 0.96%; a volatility rate of 81.03%; and an exercise price of $5.87. The warrants had an average fair value of $1.87 per option.

As described in note 1, on December 20, 2013 the Company entered into an amalgamation agreement and completed its Qualifying Transaction. The Qualifying Transaction proceeded by way of a "three-cornered" amalgamation among Mercari Acquisition Corp., Mercari Subco Inc., and CHI. On December 18, 2013, and prior to the completion of the Qualifying Transaction, Mercari changed its name to "Concordia Healthcare Corp." and completed a consolidation of its share capital on a basis of one post-consolidation common share for every 48.08 common shares existing immediately before the consolidation. This resulted in the former shareholders of Mercari owning 276,616 shares of Concordia Healthcare Corp, prior to the Qualifying Transaction.

(Stated in thousand of U.S. Dollars)

12. Share Capital (continued)

Prior to the Qualifying Transaction, as described in Note 9, all warrants issued by the Company in connection with the Senior Loan Agreement and Subordinate Loan Agreement were exercised pursuant to a cashless exercise option. As a result of this exercise, CHI issued common shares of 1,576,385 to the warrant holders.

On December 20, 2013, immediately prior to the Qualifying Transaction, CHI issued 946,222 common shares at a price of CAD $5.625 per common share (being a 10% discount to the price of the Subscription Receipts issued under the Private Placement) in connection with the acquisition of Pinnacle Biologics, Inc.

On December 20, 2013 pursuant to the Qualifying Transaction, all common shares of CHI were exchanged on a one-for-one basis for shares of Concordia Healthcare Corp.

On March 11, 2014 the Company announced the completion of a short-form prospectus offering, on a "bought deal" basis, of 5,750,000 common shares of Concordia, which included an exercise by the Underwriters of an over-allotment option of 15%. Aggregate gross proceeds of the offering were CAD $67,563. Net proceeds to the Company, after the deduction of underwriters' fees and transaction expenses of CAD $4,469 were CAD $63,094.

The Offering was completed at a price per Common Share of CAD $11.75 by a syndicate of underwriters co-led by GMP Securities L.P. and Canaccord Genuity Corp. and including Barclays Capital Canada Inc., Beacon Securities Limited and Cormark Securities Inc.

The company recorded net proceeds of $56,998 in US dollars.

The below table sets forth changes in issued and outstanding common shares and warrants for the period from December 31, 2013 to March 31, 2014.

	Number of Common Shares	Amount of Common Shares
Balance as at December 31, 2013	17,985,889	$ 57,521
Issuance of Common Shares - Short-form Prospectus	5,750,000	56,998
Exercise of options	125,357	992
Balance as at March 31, 2014	**23,861,246**	**$ 115,511**

13. Loss Per Share

	Three Months Ended March 31, 2014
Net Income for the period attributable to shareholders	$ (1,836)
Weighted average number of ordinary shares in issue	19,327,195
Adjustments for:	
Dilutive Stock Options and agent warrants	2,261,440
Weighted average number of fully diluted shares	21,588,635
Earnings per share:	
Basic	$ (0.09)
Diluted	$ (0.09)

(Stated in thousand of U.S. Dollars)

14. Share Based Compensation

The Company has an incentive stock option plan that permits it to grant options to acquire common shares to its directors, officers, employees, and others, up to a maximum number of 2,697,883 options, as determined by the Board of Directors. The option exercise price is equal to or greater than the fair market value of the Company's common shares at the date of grant. As at March 31, 2014, the company had issued a total of 2,140,000 options to executive officers, employees and non-management member of the Board of Directors (December 31, 2013 – 1,375,000).

As at March 31, 2014 557,883 stock options (December 31, 2013 - 1,322,883) were available for grant under the plan.

The Black-Sholes model was used to compute option values. Key assumptions used to value each grant are set forth in the table below:

Date of Grant	August 8, 2013	September 3, 2013	October 17, 2013	December 20, 2013	January 1, 2014	January 29, 2014	March 14, 2014
Number of options granted	500,000	525,000	100,000	250,000	100,000	330,000	335,000
Market price	$ 3.00	$ 3.00	$ 3.00	$ 5.87	$ 7.52	$ 10.32	$ 13.46
Fair value of each option granted	$ 1.07	$ 1.13	$ 1.44	$ 3.15	$ 4.53	$ 5.37	$ 6.86
Assumptions:							
Risk-Free Interest Rate	0.96%	0.96%	1.63%	1.63%	1.63%	1.63%	1.63%
Expected Life	2	2	3	3	3	3	3
Volatility	64.16%	68.27%	72.19%	82.46%	84.22%	79.48%	77.36%
Expected Forfeitures	NIL	NIL	NIL	NIL	NIL	NIL	NIL

Exercise price for each of the stock options issued agreed to the market prices at the date of issue.

As historical volatility of the Company’s common shares is not available, expected volatility is based on the historical performance of the common shares of other corporations with similar operations.

All the options issued have different vesting terms ranging from immediate vesting to vesting over a period of 3 years. All options issued have a life of 10 years.

For the quarter ended March 31, 2014, the total compensation charged against income with respect to all stock options granted was $756. An amount of $756 has been recognized in shareholders’ equity related to these options.

(Stated in thousand of U.S. Dollars)

14. Share Based Compensation (continued)

Information with respect to stock option transactions for the period ended March 31, 2014 is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance as at January 1, 2014	1,621,797	$ 3.86
Granted during the period	765,000	11.11
Expired during the period	-	-
Exercised during the period	(125,357)	5.39
Balance as at March 31, 2014	2,261,440	$ 6.23

As at March 31, 2014 outstanding stock options were as follows:

Year of Expiry	Exercise Price	Number of Shares	Shares Vested
2023	$ 3.00	1,125,000	750,000
2023	$ 5.87	371,440	121,440
2024	$ 5.88	100,000	-
2024	$ 10.32	330,000	-
2024	$ 13.46	335,000	-
		2,261,440	871,440

15. Related Party Transactions

The Company had the following related party transactions during the three months ended March 31, 2014:

	For the Three Months Ended March 31, 2014
Legal fees paid or payable to firms affiliated with directors [(a)]	42
	$ 42

(a) Legal fees include professional services for advice relating to intellectual property matters.

(Stated in thousand of U.S. Dollars)

16. Commitments and Contingencies

Lease Commitments

The Company leases facilities under operating leases in Canada, Barbados and the United States. The leases typically run for a period of months up to five years.

The below table sets forth the Company's obligations under operating leases:

	Minimum Lease Payments
2014	322
2015	157
2016	144
2017	81
2018	27
	731

The Canadian facility lease expires on April 30, 2018 with an option to renew the lease for an additional 5 years after that date.

The Barbados office lease expires in October of 2016. The facility leases in the United States all expire during 2014.

Contingency Payments

Contingency payments related to acquisitions are described in further detail below.

Following the closing of the Shionogi Transaction, as additional consideration for the sale, transfer, conveyance and assignment of the assets and the grant of the Ulesfia license, the Company is required to pay Shionogi thirty percent (30%) of worldwide net sales of Kapvay that exceeds $1,500 (in the aggregate) during each calendar quarter commencing with the calendar quarter beginning October 1, 2013 until such payments equal $6,000 in the aggregate.

As part of the consideration for the Global Medical Direct ("GMD") Transaction, the Company is obligated to pay an additional earn-out payment of up to $4,000 payable in Common Shares subject to meeting certain performance metrics. The earn-out payment provisions provide that on each earnout calculation date, if the aggregate adjusted EBITDA of Global exceeds $7,000 for the preceding year then an earnout payment of common shares will be made which is equal in value to the aggregate adjusted EBITDA of Global for the preceding year multiplied by 14.285714%. The number of common shares to be paid is calculated by dividing the dollar value of the earnout payment by the dollar volume weighted average trading price of the common shares. The aggregate earnout payments are subject to a $4,000 cap.

As part of the consideration for the Pinnacle Biologics Inc. Transaction, , the Company is obligated to pay additional payments of up to $5,000 based on the achievement of certain milestones related to clinical trials. The Company is also obligated to pay additional earn-out payments equal to 15% of worldwide sales of Photofrin in excess of $25,000 over the 10 calendar years following the Company's acquisition of Pinnacle. No payments were made during the period related to these obligations.

Royalties

The Company has a commitment to pay royalties on sales of each of the drugs acquired as part of the Shionogi Transaction at certain prescribed rates. These royalties are payable on a quarterly basis.

(Stated in thousand of U.S. Dollars)

16. Commitments and Contingencies (continued)

Guarantees

All directors and officers of the Company, and each of the Company's various subsidiaries, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable Concordia entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the particular Concordia entity or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction.

Litigation and Arbitration

In the normal course of business the Company may be the subject of litigation claims. As at March 31, 2014 there are no claims against the Company.

17. Financial Instruments and Management of Risk

The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk.

Currency Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in United States dollars. The Company's Barbados office incurs a small number of transactions in Barbados dollars and has a small bank balance, the totals of which are considered to have an insignificant effect on financial reporting. The Company has not entered into any foreign exchange derivative contracts.

The Company does not believe it is exposed to currency risk on its net assets denominated in Barbados dollars as the currency is fixed to the U.S. dollar. The Company, however, is exposed to currency risk though its net assets denominated in Canadian dollars.

	As at March 31, 2014	**As at December 31, 2013**
	CAD$	**CAD$**
Cash	3,653	1,171
Accounts payable and accrued liabilities	(1,113)	(2,297)
	2,540	(1,126)

17. Financial Instruments and Management of Risk (continued)

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. Contingent consideration payable and notes payable are also subject to interest rate risk as their fair value is based on cash flows which are discounted at a rate that could change based on market rates of interest.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentrations of credit risk consist of cash and other receivables. The Company's investment policies are designed to mitigate the possibility of deterioration of principal, enhance the Company's ability to meet its liquidity needs and provide high returns within those parameters. Cash is on deposit with a Canadian chartered bank located in Canada and Barbados. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts. As at March 31, 2014, the allowance for doubtful accounts was $414 ($361 as at December 31, 2013).

The Company has concentration risk, as approximately 73% of total sales and 72% of total accounts receivable came from four customers.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings and issuances of long-term debt. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. The Company's ability to accomplish all of its future strategic plans is dependent upon obtaining additional financing or executing other strategic options.

(Stated in thousand of U.S. Dollars)

17. Financial Instruments and Management of Risk (continued)

The following table summarizes the Company's significant contractual undiscounted cash flows as at March 31, 2014 and December 31, 2013:

March 31, 2014

Financial Instruments	< 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	Thereafter	Total
Accounts payable and accrued liabilities	$ 6,780	$ -	$ -	$ -	$ -	$ -	$ 6,780
Provisions	2,692	6,730	17,497	-	-	-	26,918
Royalties payable	-	3,755	-	-	-	-	3,755
Taxes payable	-	1,182	-	-	-	-	1,182
Current portion of purchase consideration payable	-	-	2,900	-	-	-	2,900
Notes payable	-	-	-	1,800	4,200	1,000	7,000
Purchase consideration payable	-	-	-	1,527	9,815	39,744	51,086
	$ 9,472	**$ 11,667**	**$ 20,397**	**$ 3,327**	**$ 14,015**	**$ 40,744**	**$ 99,621**

December 31, 2013

Financial Instruments	< 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	Thereafter	Total
Accounts payable and accrued liabilities	$ 29,403	$ -	$ -	$ -	$ -	$ -	$ 29,403
Provisions	-	-	-	-	-	-	24,208
Royalties payable	-	3,093	-	-	-	-	3,093
Taxes payable	-	987	-	-	-	-	987
Senior and subordinate debt	16,830	-	-	-	-	-	16,830
Current portion of purchase consideration payable	-	-	2,786	-	-	-	2,786
Notes payable	-	-	-	1,800	4,200	1,000	7,000
Purchase consideration payable	-	-	-	1,527	9,815	39,744	51,086
	$ 46,233	**$ 4,080**	**$ 2,786**	**$ 3,327**	**$ 14,015**	**$ 40,744**	**$ 135,393**

Fair Value

The fair value of the purchase consideration payable and notes payable was determined using a Level II valuation technique by using discounted cash flow models that use discount rates that reflect the Company's borrowing rate as at March 31, 2014. The Company's own non-performance risk was assessed to be insignificant as at March 31, 2014.

18. Capital Management

The Company's capital management objectives are to safeguard its ability to provide returns for shareholders and benefits for other stakeholders, by ensuring it has sufficient cash resources to fund its activities, to pursue its commercialization efforts and to maintain its ongoing operations. The Company includes long-term debt and shareholders' equity in the definition of capital.

The below table sets forth the Company's capital structure:

	As at March 31, 2013	As at December 31, 2013
Senior and subordinate debt	$ -	$ 14,966
Notes payable	5,959	5,766
Stockholders' Equity	118,101	61,522
	$ 124,060	**$ 82,254**

On March 28, 2014, the Company repaid in full its senior and subordinate debt.

19. Segmented Reporting

Operating Segments

The Company has three reportable operating segments: The Legacy Pharmaceuticals Division, The Orphan Drugs Division and The Specialty Healthcare Distribution Division. A brief description of each segment follows below.

The Legacy Pharmaceuticals Division

The Legacy Pharmaceuticals Division focuses on the management and acquisition of legacy pharmaceutical products, both with patent life and exclusivity remaining (pre-legacy) and products that have reached full maturity but continue on a predictable revenue generation path, collectively referred to as legacy products.

The Orphan Drugs Division

The Orphan Drugs Division is intended to provide growth opportunities through the expansion into new indications for existing legacy products or the acquisition of approved orphan drugs and further expansion within their identified markets.

The Specialty Healthcare Distribution Division

The Speciality Healthcare Distribution Division is a nation-wide provider of diabetes testing supplies, pharmaceuticals, diabetic shoes, orthotic braces and other home medical equipment in the United States.

The Legacy Pharmaceuticals Division had 2 customers that made up 36% of total sales and 45% of total accounts receivable. The Orphan Drug Division had one customer that made up 21% total sales and 2% of total accounts receivable. The Specialty Healthcare Distribution Division had 16% of total sales and 25% of accounts receivable that was attributable to one customer.

(Stated in thousand of U.S. Dollars)

19. Segmented Reporting (continued)

The below table sets forth operating income, interest and accretion expense, change in fair value of contingent consideration, income taxes, total assets and total liabilities by reportable operating segment for the period ended March 31, 2014:

	Legacy Pharmaceuticals	Orphan Drugs	Specialty Healthcare Distribution	Corporate	Eliminations	Three months ended March 31, 2014
Revenue	$ 9,309	$ 3,570	$ 3,931	$ -	$ -	$ 16,810
Cost of sales	2,210	700	944	-	-	3,854
Gross profit	**7,099**	**2,870**	**2,987**	**-**	**-**	**12,956**
Operating expenses						
General & administrative	383	760	2,091	1,457	-	4,691
Selling and marketing	(4)	573	375	-	-	944
Research and development	350	1,068	-	-	-	1,418
Management Fees		-	-	-	-	-
Share based compensation	-	-	-	756	-	756
Exchange listing expenses	-	-	-	-	-	-
Acquisition related costs	13	-	-	161	-	174
Depreciation expense	6	-	24	4	-	34
Total operating expenses	**$ 748**	**$ 2,401**	**$ 2,490**	**$ 2,378**	**$ -**	**$ 8,017**
Operating income	**$ 6,351**	**$ 469**	**$ 497**	**$ (2,378)**	**$ -**	**$ 4,939**
Interest and accretion expense	-	201	194	4,310	-	4,705
Change in fair value of contingent consideration	-	567	-	-	-	567
Income taxes	130	(55)	(12)	-	-	63
Total Assets	$ 88,401	$ 66,909	$ 11,943	$ 97,479	$ (70,586)	**$ 194,146**
Total Liabilities	$ 34,024	$ 30,455	$ 9,929	$ 1,637	**$ -**	**$ 76,045**

Geographic Segments

The Company's revenue by country of origin of external customer is all in the United States, with the exception of $298 of revenue in the Orphan Drugs segment that originates from customers outside of the United States.

The Company has operations in Barbados, Canada and the United States. The below table sets forth assets and liabilities by geographic location (excluding inter-company balances and investments in subsidiaries):

	Barbados	Canada	United States	As at March 31, 2014
Current assets	$ 27,353	$ 57,619	$ 11,227	$ 96,199
Non-current assets	26,487	37	71,423	$ 97,947
Total Assets	**53,840**	**57,656**	**82,650**	**194,146**
Current liabilities	34,193	1,637	6,216	42,046
Non-current liabilities	-	-	33,999	33,999
Total Liabilities	**$ 34,193**	**$ 1,637**	**$ 40,215**	**$ 76,045**

20. Subsequent Events

Acquisition of Donnatal®

On March 20, 2014 the Company announced that it had entered into a definitive agreement to acquire Donnatal®, an adjunctive therapy in the treatment of irritable bowel syndrome ("IBS") and acute enterocolitis, from a privately held specialty pharmaceutical company carrying on business as Revive Pharmaceuticals ("Revive Pharmaceuticals").

The Company has agreed to acquire Donnatal® for US$200 million in cash and an aggregate of 4,605,833 common shares of Concordia, representing approximately 16.17% of the Company's outstanding common shares on a non-diluted basis (approximately 14.96% on a fully-diluted basis) after giving effect to the acquisition. Revive Pharmaceuticals will also be entitled to have a representative nominated to the board of directors of the Company provided that it maintains a certain shareholding level in the Company. Completion of the acquisition is subject to customary closing conditions (including approval of the TSX), and acceptable financing.

Management anticipates that the deal will close in May of 2014. Management plans to pay for the cash component of the acquisition through a combination of available cash and debt financing. Accordingly, the Company has entered into a commitment letter with GE Capital, Healthcare Financial Services and its affiliated entities ("GE"). Pursuant to the commitment letter, GE has agreed to provide a secured credit facility having a principal amount of US$195 million, consisting of a $170 million term loan and a $25 million operating line (the "Credit Facility"). The Credit Facility will be secured by the assets of the Company and the assets of its subsidiaries. The Credit Facility is subject to a number of customary conditions, including entering into definitive documentation.

CONCORDIA HEALTHCARE CORP.
277 Lakeshore Road East, Suite 302
Oakville, Ontario L6J1H9