CONCORDIA HEALTHCARE CORP

2014 SECOND QUARTER REPORT

Management's Discussion and Analysis

For the three and six months ended June 30, 2014

Dated: August 13, 2014

*The following Management's Discussion and Analysis ("**MD&A**") was prepared as of August 13, 2014 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 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.*

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. Additional information relating to the Company including 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 regarding Concordia and its business. 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, and are based on assumptions and subject to risks and uncertainties.

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 Concordia'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; and
- Concordia will be able to comply with its contractual obligations, including, without limitations, its obligation under debt arrangements.

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; fair value of contingent consideration; 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 an 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 an 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 an 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 established 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 an 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 the time of grant and revised if actual forfeitures are likely to differ from previous estimates. 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 the fair values of the underlying options 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 uses 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 uses 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.

Acquisition-Related Contingent Purchase Consideration

Some of the acquisitions Concordia has completed include contingent consideration to be potentially paid based upon the occurrence of future events, such as sales performance and the achievement of certain future development, regulatory and sales milestones.

Acquisition-related contingent consideration associated with an acquisition is initially recognized at fair value and then remeasured each reporting period, with changes in fair value recorded in the consolidated statements of income (loss). The estimates of fair value contain uncertainties as they involve assumptions about the likelihood of achieving specified milestone criteria, projections of future financial performance, and assumed discount rates. Changes in the fair value of the acquisition-related contingent consideration obligations result from several factors including changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving specified milestone criteria. A change in any of these assumptions could produce a different fair value, which could impact results.

Company Overview

Concordia 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.

These three divisions are identified as reportable segments under IFRS for the purposes of disclosure in the Company's 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 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, 2012. 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**").

Immediately upon completion of the Qualifying Transaction, the shareholders of CHI held 98.5% of the shares of the amalgamated corporation, and for accounting purposes CHI was deemed the acquirer. The Qualifying Transaction constituted a reverse takeover but did not meet the definition of a business combination under 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's shares were listed for trading on the Toronto Stock Exchange (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 was 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. On March 28, 2014 the Company repaid in full its senior and subordinate debt.

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 Company did not draw on the Revolving Facility and cancelled it on May 13, 2014.

Acquisitions

Concordia Pharmaceuticals Inc. ("**CPI**"), a wholly owned subsidiary of the Company, acquired its legacy pharmaceutical business assets from Shionogi Inc. ("**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, 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 products, $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 Medical Direct LLC and affiliated entities (collectively, "**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 of the Company 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 an agreement to acquire 100% of the shares of Pinnacle Biologics Inc. ("**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 (as defined below) issued as part of the Private Placement (as defined below), 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 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 CHI 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

Financings

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 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.

This 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.

On May 14, 2014, the Company entered into a secured credit facility having a principal amount of up to US$195 million, consisting of a $170 million term loan and a $25 million operating line (the "**Credit Facility**"). The Credit Facility bears a variable interest rate and matures on May 14, 2019 with fixed repayments required over the term to maturity, as well as mandatory repayments based on excess cash flow generated by the Company as defined in the Credit Facility, calculated annually. Interest rates are calculated at the U.S. Prime Rate or LIBOR plus applicable margins based on a leverage table. The Credit Facility is secured by the assets of the Company and the assets of its material subsidiaries and is maturing on May 14, 2019.

Acquisition of Donnatal®

On March 19, 2014, the Company 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 acquired Donnatal® for $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 is 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.

The Company paid for the cash component of the acquisition through a combination of available cash and debt financing from the Credit Facility.

Selected Quarterly Financial Information

The following table sets forth selected unaudited financial information for Concordia as at June 30, 2014 and for the previous five quarters.

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013
Revenue	26,053	16,810	16,684	14,725	9,038
Gross profit	21,499	12,956	12,628	12,147	7,334
Operating income	2,731	4,939	292	7,897	5,796
Net income (Loss)	(827)	(1,836)	(7,083)	5,364	4,150
Cash	32,708	77,973	42,899	23,426	14,100
Total assets	490,135	194,146	170,765	79,370	50,171
Total liabilities	246,010	76,045	109,243	59,727	40,021
EBITDA [(1)]	1,651	3,546	(4,320)	7,908	5,788
Adjusted EBITDA [(1)]	12,441	5,903	6,831	8,542	5,796
Earnings (Loss) per share					
Basic	$ (0.03)	$ (0.09)	$ (1.12)	$ 2.08	$ 2.52
Dilutive	$ (0.03)	$ (0.09)	$ (1.12)	$ 1.63	$ 1.18

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 five quarters reflect the Company's growth through strategic acquisitions in 2013 and 2014. Revenues for the current quarter were greater than the prior quarter partially due to the inclusion of six weeks of contribution from Donnatal®, which was acquired on May 15, 2014.

The sequential quarterly increase in total assets reflects the impact of the recent asset acquisition of Donnatal®.

Results of Operations

The following table sets forth the unaudited consolidated results of operations of the Company for the three and six months ended June 30, 2014 and June 30, 2013:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Revenue	$ 26,053	$ 9,038	$ 42,863	$ 9,038
Cost of sales	4,554	1,704	8,408	1,704
Gross profit	**21,499**	**7,334**	**34,455**	**7,334**
Operating expenses				
General & administrative	4,931	1,265	9,622	1,265
Selling and marketing	2,196	197	3,140	197
Research and Development	1,931	76	3,349	76
Share based compensation	1,380	-	2,136	-
Acquisition related costs	8,314	-	8,488	-
Depreciation expense	16	-	50	-
Total operating expenses	**18,768**	**1,538**	**26,785**	**1,538**
Operating income	**2,731**	**5,796**	**7,670**	**5,796**
Other income and expense				
Interest expense	1,442	1,638	6,147	1,638
Change in fair value of contingent consideration	983	-	1,550	-
Amortization of intangible assets	580	-	1,160	-
Foreign exchange (gain) loss	-	8	865	8
Other (income) expense	113	-	108	-
Profit Before Tax	**(387)**	**4,150**	**(2,160)**	**4,150**
Income Taxes	440	-	503	-
Net Income (Loss)	**$ (827)**	**$ 4,150**	**$ (2,663)**	**$ 4,150**
EBITDA [(1)]	**$ 1,651**	**$ 5,788**	**$ 5,197**	**$ 5,788**
Adjusted EBITDA [(1)]	**$ 12,441**	**$ 5,796**	**$ 18,344**	**$ 5,796**

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 and six months ended June 30, 2014 and June 30, 2013:

	Legacy Phamaceuticals	Orphan Drugs	Specialty Healthcare Distribution	Total
Three-Month Ended June 30, 2014				
Revenue	$ 19,546	$ 778	$ 5,729	$ 26,053
Cost of sales (including royalties)	4,001	(404)	957	4,554
Gross profit	**$ 15,545**	**$ 1,182**	**$ 4,772**	**$ 21,499**
Three-Month Ended June 30, 2013				
Revenue	$ 9,038	$ -	$ -	$ 9,038
Cost of sales (including royalties)	1,704	-	-	1,704
Gross profit	**$ 7,334**	**$ -**	**$ -**	**$ 7,334**
Six-Month Ended June 30, 2014				
Revenue	$ 28,855	$ 4,348	$ 9,660	$ 42,863
Cost of sales (including royalties)	6,212	295	1,901	8,408
Gross profit	**$ 22,643**	**$ 4,053**	**$ 7,759**	**$ 34,455**
Six-Month Ended June 30, 2013				
Revenue	$ 9,038	$ -	$ -	$ 9,038
Cost of sales (including royalties)	1,704	-	-	1,704
Gross profit	**$ 7,334**	**$ -**	**$ -**	**$ 7,334**

Legacy Pharmaceuticals Division

Legacy Pharmaceuticals Division revenue in the second quarter of 2014 was $19.5 million, compared to $9.0 million in the second quarter of 2013. The acquisition of Donnatal® accounted for the majority of the increase in revenue over the same quarter in 2013. The remainder of the increase was due to higher revenue from the legacy portfolio acquired from Shionogi, driven by the inclusion of a full quarter of operations in 2014 compared with less than two months of operations in 2013 as the division was initially formed on May 5, 2013.

Legacy Pharmaceuticals gross profit for the second quarter of 2014 was $15.5 million compared to $7.3 million in the prior year comparable period. The increase of $8.2 million was primarily due to sales growth in the division, with the acquisition of Donnatal® accounting for the majority of the increase. Legacy Pharmaceuticals gross margin in the second quarter of 2014 was 79.5% compared with 81.1% in 2013. The slight decline in gross margin is primarily driven by a net increase in the inventory provision related to the drugs acquired from Shionogi of $0.9 million.

Legacy Pharmaceuticals revenue for the six months ended June 30, 2014 increased by $19.8 million over the prior year comparable period. Revenue in 2014 reflects a full two quarters of operations, including the addition of Donnatal® compared to approximately two months of operations in 2013. Gross profit for the six months ended June 30, 2014 increased by $15.3 million over the same period in the prior year.

Cost of sales for the three months ended June 30, 2014 and 2013 were $4.0 million and $1.7 million, respectively, and reflect the costs of active pharmaceutical ingredients, excipients, packaging and freight

costs and royalties. Cost of sales was $6.2 million and $1.7 million for the six months ended June 30, 2014 and 2013, respectively.

Orphan Drugs Division

Net revenue for the Orphan Drugs Division was $0.8 million for the three months ended June 30, 2014 ($4.4 million for the six months ended June 30, 2014) and represents the sales of Photofrin, lasers and fibers. Orphan Drugs revenue was impacted in the second quarter of 2014 by a reduction in end user inventory of Photofrin as hospitals continue to optimize inventory holdings and by a product expiry issue which required the Company to replace certain channel inventory at no cost.

Cost of sales for the three months ended June 30, 2014 represent a recovery of $0.4 million after accounting for the reversal of a take or pay provision of $0.6 million in the quarter relating to the year ended December 31, 2013. During the quarter the Company, in consultation with external advisors determined that it did not have an obligation to pay its manufacturer for the provision.

Gross profit for the three months ended June 30, 2014 was $1.2 million ($4.1 million for the six months ended June 30, 2014)

Specialty Healthcare Distribution Division

Net revenues for the Specialty Healthcare Distribution division were $5.7 million and $9.7 million for the three months and six months ended June 30, 2014, respectively, and related primarily to sales and distribution of diabetes testing supplies and orthotics for diabetic patients. Revenue for the three months ended June 30, 2014 was positively impacted by the conversion of a larger orders backlog for a significant pharmacy benefits manager.

Costs of sales for the three months ended June 30, 2014 were $1.0 million and $1.9 million for six months ended June 30, 2014 and related to the cost of products, warehousing and freight.

Gross profit for the three months ended June 30, 2014 was $4.8 million ($7.8 million for the six months ended June 30, 2014).

General and Administrative Expenses

General and administrative expenses reflect the costs related to salaries and benefits, professional and consulting fees, public company costs, transition services agreement expenses, travel, facility leases and other administrative expenditures.

General and administrative expenses increased from $1.3 million in the second quarter of 2013 to $4.9 million in the second quarter of 2014. The increase of $3.6 million was partially driven by the addition of the Orphan Drugs and SHD Divisions, which together had general and administrative expenses of $2.1 million during the second quarter of 2014. The remainder of the increase relates to the overall expansion of the Company from the first two months of operations in the second quarter of 2013 to the Company's current infrastructure.

General and administrative expenses increased from $1.3 million to $9.6 million in the six months ended June 30, 2013 and 2014, respectively. The increase of $8.3 million was partially driven by the addition of the Orphan Drugs and SHD Divisions, which together had general and administrative expenses of $4.9 million during first two quarters of 2014. The remainder of the increase relates to the overall expansion of the Company as described above.

Selling and Marketing Expenses

Selling and marketing expenses reflect costs incurred by the Company for the marketing, promotion and selling of the Company's portfolio of products across the Legacy Drugs, SHD and Orphan Drugs divisions.

Selling and marketing expenses increased from $0.2 million in the second quarter of 2013 to $2.2 million in the second quarter of 2014. The increase of $2.0 million was primarily driven by the addition of the SHD and Orphan Drugs divisions, which together incurred selling and marketing expenses of $1.0 million in the second quarter of 2014. Selling and marketing expenses also increased in the Legacy Drugs division with the addition of the sales and marketing infrastructure associated with Donnatal®.

Selling and marketing expenses increased from $0.2 million to $3.1 million in the six months ended June 30, 2013 and 2014, respectively. The increase of $2.9 million was primarily driven by the addition of the SHD and Orphan Drugs divisions, which together incurred selling and marketing expenses of $1.9 million in the second quarter of 2014. The remainder of the increase was primarily driven by the addition of Donnatal® as described above.

Research and Development Expenses

Research and development expenses reflect 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 expenses increased from $0.08 million in the second quarter of 2013 to $1.9 million in the second quarter of 2014. The increase of $1.9 million was primarily driven by the addition of the Orphan Drugs Division, which had research and development expenses of $1.4 million during the second quarter of 2014. This included spending of $0.4 million related to initiation of the clinical trial in cholangiocarcinoma with Photofrin. The remainder of the increase is driven by the overall expansion of the Company's Legacy Drugs division.

Research and development expenses increased from $0.08 million to $3.3 million in the six months ended June 30, 2013 and 2014, respectively. The increase of $3.3 million was primarily driven by the addition of the Orphan Drugs Division, which had research and development expenses of $2.5 million during the first two quarters of 2014. This included spending of $0.7 million related to initiation of the clinical trial in cholangiocarcinoma with Photofrin. The remainder of the increase is driven by the overall expansion of the Company's Legacy Drugs division as described above.

Share Based Compensation

Share based compensation expense for the three and six months ended June 30, 2014 was $1.4 million and $2.1 million, respectively ($nil for three ended June 30, 2013) and relates to the fair value of share based option awards to management and directors of the Company.

The Company issued 55,000 and 820,000 options to management and employees during the three and six months ended June 30, 2014, respectively.

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.

Acquisition Related Costs

Acquisition related costs for three months and six months ended June 30, 2014 were $8.3 million and $8.5 million, respectively and related to legal, accounting, advisory and professional fees directly incurred by the Company for the acquisition of Donnatal®.

Interest Expense

Interest expense for the three months ended June 30, 2014 and June 30, 2013 was $1.4 million and $1.6 million, respectively, and relate primarily to interest and accretion interest incurred on the Company's credit facilities as described above.

Interest expense for the six months ended June 30, 2014 and June 30, 2013 was $6.1 million and $1.6 million, respectively. In the first quarter of 2014 the Company incurred interest and accretion expense of $4.7 million, which included minimum interest payments related to the early retirement of debt.

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

Change in Fair Value of Contingent Consideration

The change in the fair value of contingent consideration expensed during the three and six months ended June 30, 2014 was $1.0 million and $1.6 million, respectively. The expense is primarily driven by the change in the present value of contingent consideration due to the previous owners of Pinnacle Biologics Inc. for milestone and earn-out payments related to the clinical trial and worldwide sales of Photofrin. During the second quarter of 2014 the Company also increased its estimated payment to Shionogi for earn out payments related to quarterly sales of Kapvay by $0.4 million.

Amortization of Intangible Assets

The amortization of intangible assets expensed in the three and six months ended June 30, 2014 was $0.6 million and $1.2 million, respectively ($nil for three and six months ended June 30, 2013), and related to the amortization of intellectual property and a customer list.

Foreign Exchange Loss

The foreign exchange loss for the six months ended June 30, 2014 was $0.9 million and was primarily the charge related to the conversion of the January 2014 equity raise from Canadian to US dollars. The loss was incurred in the first quarter of 2014.

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 June 30, 2014 the Company held cash and cash equivalents of $32.7 million and had an additional $25.0 million available from the Credit 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, long-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:

	Six Months Ended June 30	
	2014	**2013**
Net cash provided by (used in) operating activities	(9,395)	12,867
Net cash used in investing activities	(201,287)	(27,917)
Net cash provided by financing activities	200,491	29,150
Increase in Cash	(10,191)	14,100
Beginning Cash	42,899	-
Ending Cash	**32,708**	**14,100**

Net Cash Used in Operating Activities

Net cash used in operating activities was $9.4 million for the six months ended June 30, 2014 and was primarily related to the payment of liabilities, deposits on inventory purchases and advanced funding of clinical trial costs. Net cash used in operating activities also included $8,488,000 in acquisition related payments during the six months ended June 30, 2014. Net cash provided by operating activities was $12.9 million in the comparable prior year period and was driven by net income of $4.2 million and an increase of $12.8 million in provisions.

Net Cash Used in Investing Activities

Net cash used in investing activities were $201.3 million and $27.9 million for the six months ended June 30, 2014 and 2013, respectively, and were primarily due to the acquisition of Donnatal® in the second quarter of 2014 and the acquisition of the legacy drugs portfolio from Shionogi in the second quarter of 2013.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $200.5 million for the six months ended June 30, 2014 compared to $29.2 million in the same prior year period and was primarily driven by net proceeds from the Credit Facility of $164.5 million as well as by net proceeds from issuance of common stock of $57.0 million. Proceeds from the term loan were used to partially finance the acquisition of Donnatal®. Proceeds from the issuance of equity were partially used to retire Senior and Subordinated Debt plus accrued interest amounting to a combined $19.3 million.

Indebtedness

Term Facilities and Warrants

Credit Facility

On May 14, 2014, the Company entered into a secured credit facility having a principal amount of up to $195,000, consisting of a $170,000 term loan and a $25,000 operating line (the "**Credit Facility**"). The Credit Facility is secured by the assets of the Company and the assets of its material subsidiaries and is maturing on May 14, 2019.

Contractual Obligations

The following table summarizes Concordia's material contractual obligations as at June 30, 2014:

As at June 30, 2014	Total	2014	2015	2016	2017	2018	Thereafter
Finance lease obligation	7	4	3	-	-	-	-
Operating leases	3,345	202	445	472	481	490	1,255
Purchase obligations	1,900	380	760	760	-	-	-
Research grants	834	282	552	-	-	-	-
Total contractual obligations	$ 6,086	$ 868	$ 1,760	$ 1,232	$ 481	$ 490	$ 1,255

Related Party Transactions

The Company had the following related party transactions during the three and six months ended June 30, 2014 and June 30, 2013:

	For the Three Months Ended June 30	
	2014	2013
Compensation of directors	$ 56	$ -
Legal fees paid or payable to firms affiliated with directors [(a)]	35	42
	$ 91	**$ 42**

	For the Six Months Ended June 30	
	2014	2013
Compensation of directors	$ 112	$ -
Legal fees paid or payable to firms affiliated with directors [(a)]	77	42
	$ 189	**$ 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 of the Company 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 Complete Medical Homecare ("CMH"), a subsidiary of the Company 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 CMH 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 on the TSX. 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 June 30, 2014, there are no material 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 does not 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 adoption of the amendments to this standard does not have a material impact on the Company's financial statements.

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 does not 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, share based compensation, 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 three months ended June 30, 2014 and June 30, 2013:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net Income	**$ (827)**	**$ 4,150**	**$ (2,663)**	**$ 4,150**
Interest expense	1,442	1,638	6,147	1,638
Income Taxes	440	-	503	-
Depreciation expense	16	-	50	-
Amortization of intangible assets	580	-	1,160	-
EBITDA	**$ 1,651**	**$ 5,788**	**$ 5,197**	**$ 5,788**
Change in fair value of contingent consideration	983	-	1,550	-
Share based compensation	1,380	-	2,136	-
Business acquisition related costs	8,314	-	8,488	-
Foreign exchange (gain) loss	-	8	865	8
Other (income) expense	113	-	108	-
Adjusted EBITDA	**$ 12,441**	**$ 5,796**	**$ 18,344**	**$ 5,796**

Outstanding Share Data

The authorized capital of the Company consists of an unlimited number of common shares. As at June 30, 2014 and August 13, 2014 the Company had 28,511,239 and 28,561,239 common shares issued and outstanding, respectively. As at June 30, 2014 and August 13, 2014, there were 2,257,280 and 2,207,280 options outstanding, respectively, that entitle the holders thereof to purchase one common share per 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 June 30, 2014.

Assessment of DC&P and ICFR

Based on the evaluation of the Company's DC&P and ICFR as at June 30, 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.

June 30, 2014

Concordia Healthcare Corp.

Condensed Interim Consolidated Balance Sheet

As at June 30, 2014 and December 31, 2013
(Stated in thousands of U.S. Dollars, except per share amounts)
(Unaudited)

	June 30, 2014	December 31, 2013 (Audited)
Assets		
Current		
Cash	$ 32,708	$ 42,899
Accounts receivable (Note 4)	20,098	23,012
Inventory (Note 6)	5,001	4,030
Prepaid expenses and other current assets (Note 5)	7,386	2,407
	65,193	72,348
Fixed assets (Note 7)	620	444
Intangible assets (Note 8)	60,540	61,700
Unallocated purchase price (Note 3)	327,533	-
Goodwill (Note 9)	36,249	36,249
Total Assets	**$ 490,135**	**$ 170,741**
Liabilities		
Current		
Accounts payable	$ 18,423	$ 21,669
Accrued liabilities	3,927	7,734
Provisions (Note 10)	15,010	24,208
Royalties payable	2,642	3,093
Dividend payable	2,138	-
Taxes payable	2,058	987
Senior and subordinate debt (Note 12)	-	14,966
Current portion of notes payable (Note 13)	662	662
Current portion of long-term debt (Note 11)	14,564	-
Current portion of purchase consideration payable (Note 14)	2,271	2,786
	61,695	76,105
Long-term debt (Note 11)	150,130	-
Notes payable (Note 13)	5,500	5,104
Purchase consideration payable (Note 14)	22,990	21,599
Deferred taxes	5,695	6,391
Other liabilities	-	20
Total Liabilities	**246,010**	**109,219**
Shareholders' Equity		
Share capital (Note 15)	245,000	57,521
Reserve for share based compensation	3,288	1,555
Accumulated other comprehensive income	(1)	15
Retained earnings (deficit)	(4,162)	2,431
Total Shareholders' Equity	**244,125**	**61,522**
Total Liabilities and Shareholders' Equity	**$ 490,135**	**$ 170,741**

Commitments and contingencies (Note 19)

Approved and authorized for issue by the Board of Directors on August 13, 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 (Loss) and Comprehensive Income (Loss) For the Three and Six Months Ended June 30, 2014 and June 30, 2013
(Stated in thousands of U.S. Dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Revenue	$ 26,053	$ 9,038	$ 42,863	$ 9,038
Cost of sales	4,554	1,704	8,408	1,704
Gross profit	**21,499**	**7,334**	**34,455**	**7,334**
Operating expenses				
General and administrative	4,931	1,265	9,622	1,265
Selling and marketing	2,196	197	3,140	197
Research and development	1,931	76	3,349	76
Share-based compensation	1,380	-	2,136	-
Business acquisition related costs (Note 3)	8,314	-	8,488	-
Depreciation expense	16	-	50	-
Total operating expenses	**18,768**	**1,538**	**26,785**	**1,538**
Operating income	**2,731**	**5,796**	**7,670**	**5,796**
Other income and expense				
Interest and accretion expense	1,442	1,638	6,147	1,638
Change in fair value of contingent consideration	983	-	1,550	-
Amortization of intangible assets	580	-	1,160	-
Foreign exchange (gain) loss	-	8	865	8
Other (income) expense	113	-	108	-
Income (Loss) Before Tax	**(387)**	**4,150**	**(2,160)**	**4,150**
Income Taxes (Recovery)	440	-	503	-
Net Income (Loss)	**(827)**	**4,150**	**(2,663)**	**4,150**
Other comprehensive Income (Loss)				
Exchange differences on translation of foreign operations	(3)	-	(16)	-
Total comprehensive income (loss) for the period	**$ (830)**	**$ 4,150**	**$ (2,679)**	**$ 4,150**
Earnings (Loss) Per Share (Note 16)				
Basic earnings (loss) per share	$ (0.03)	2.52	$ (0.12)	2.52
Fully Diluted earnings (loss) per share	$ (0.03)	1.18	$ (0.12)	1.18

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 Six Months Ended June 30, 2014 and June 30, 2013
(Stated in thousands of U.S. Dollars, except per share amounts)
(Unaudited)

	Share Capital					
	Number of Shares	Amount	Reserve for Share Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balances, January 1, 2014	17,985,889	$ 57,521	$ 1,555	$ 15	$ 2,431	$ 61,522
Issuance of Common Stock during the period	10,355,833	186,150	-	-	-	$ 186,150
Dividends	-	-	-	-	(3,930)	$ (3,930)
Exercise of options	169,517	1,329	(403)	-	-	$ 926
Share Based Compensation Expense	-	-	2,136	-	-	$ 2,136
Net loss	-	-	-	-	(2,663)	$ (2,663)
Other Comprehensive Income (loss)	-	-	-	(16)	-	$ (16)
Balances, June 30, 2014	**28,511,239**	**$ 245,000**	**$ 3,288**	**$ (1)**	**$ (4,162)**	**$ 244,125**
Balances, January 1, 2013	1,500,000	$ -	-	-	-	-
Issuance of Common Stock during the period	6,000,000	6,000	-	-	-	6,000
Net income	-	-	-	-	4,150	4,150
Balances, June 30, 2013	**7,500,000**	**$ 6,000**	**$ -**	**$ -**	**$ 4,150**	**$ 10,150**

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 Six Months Ended June 30, 2014 and June 30, 2013
(Stated in thousands of U.S. Dollars, except per share amounts)
(Unaudited)

	Six Month Ended June 30	
	2014	**2013**
Cash flows from operating activities		
Net loss after tax	(2,663)	$ 4,150
Adjustments to reconcile net income to net cash flows from operating activities:		
Accretion and interest expense	6,147	1,638
Depreciation and amortization	1,210	-
Share based compensation expense	2,136	-
Change in fair value of contingent consideration	1,550	-
Cash income taxes paid	(154)	-
Loss on sale of equipment	120	-
Income taxes	503	-
	8,849	5,788
Changes in operating assets and liabilities, excluding effect of acquisitions		
Accounts receivable	2,913	(8,041)
Inventory	249	292
Prepaid expenses and other current assets	(4,017)	(405)
Accounts payable	(3,950)	1,046
Accrued liabilities	(3,790)	1,391
Provisions	(9,198)	12,796
Royalties payable	(451)	-
Net cash provided by (used in) operating activities	**(9,395)**	**12,867**
Cash flows from investing activities		
Purchase consideration paid	(201,062)	(27,912)
Purchase of fixed assets	(229)	(5)
Proceeds from sale of equipment	4	-
Net cash used in investing activities	**(201,287)**	**(27,917)**
Cash flows from financing activities		
Proceeds from credit facilities	170,000	3,000
Net proceeds from issuance of common stock	56,998	6,000
Proceeds from senior and subordinated debt	-	21,150
Transaction cost paid on long-term debt	(5,485)	(1,000)
Proceeds from exercise of options	926	-
Payment of senior and subordinated debt	(15,742)	
Interest Paid	(4,414)	-
Dividends Paid	(1,792)	-
Net cash provided by financing activities	**200,491**	**29,150**
Net change in cash	(10,191)	14,100
Cash at beginning of period	42,899	-
Cash at end of period	**$ 32,708**	**$ 14,100**

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.

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 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, 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").

Immediately upon completion of 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 constituted a reverse takeover but did 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 and six months ended June 30, 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, the condensed interim consolidated statement of income and comprehensive income, changes in equity, and cash flows prepared for the three months ended June 30, 2013 is the same as the result for six months ended June 30, 2013.

(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 does not 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 does not 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 does not have a material impact on the Company's financial statements.

(Stated in thousands of U.S. Dollars, except per share amounts)

3. Acquisition

On May 15, 2014, Concordia, through its wholly owned subsidiary Concordia Pharmaceuticals Inc. ("CPI"), completed the purchase of Donnatal®, pursuant to the terms and conditions of a definitive agreement announced previously and entered into as of March 19, 2014, from a privately held specialty pharmaceutical company carrying on business as Revive Pharmaceuticals ("Revive Pharmaceuticals"). Donnatal® is an adjunctive therapy in the treatment of irritable bowel syndrome ("IBS") and acute enterocolitis.

The purchase price paid to Revive Pharmaceuticals was $329,151 comprised of $200,000 in cash and an aggregate of 4,605,833 common shares of the Company valued at $129,151 based on the closing price of the Company's stock on May 15, 2014 of CAD$30.50 per share converted to USD using the May 15, 2014 Bank of Canada closing USD: CAD exchange rate of 1:1.0877.

The Company paid for the cash component of the acquisition through a combination of available cash and debt financing. Accordingly, the Company entered into a secured credit facility having a principal amount of up to $195,000, consisting of a $170,000 term loan and a $25,000 operating line (the "Credit Facility") (Note 11). The Credit Facility is secured by the assets of the Company and the assets of its material subsidiaries.

The Company expensed $8,314 transaction costs in relation to the acquisition. Due to the complexity and timing of the acquisition, the Company is in the process of determining the estimated fair value of the net assets acquired as part of the acquisition and as a result any excess purchase consideration has been allocated to the line item "Unallocated Purchase Price".

The purchase price has been allocated as follows:

Net Assets Acquired		
Inventory	$	1,339
Prepaid expenses and deposits		970
Accrued liabilities		(691)
Unallocated Purchase Price		327,533
Total net assets acquired	**$**	**329,151**

Consideration Comprised of:		
Cash	$	200,000
Equity Issued		129,151
Total Consideration	**$**	**329,151**

(Stated in thousands of U.S. Dollars, except per share amounts)

4. Accounts Receivable

	As at June 30, 2014	As at December 31, 2013
Accounts Receivable	$ 20,549	$ 23,373
Allowance for Doubtful Accounts	(451)	(361)
Net Accounts Receivable	**$ 20,098**	**$ 23,012**

The Company recorded an additional allowance for doubtful accounts of $90 during the period. There were no write-offs recorded during the period.

5. Prepaids and Other Current Assets

	As at June 30, 2014	As at December 31, 2013
Prepaid regulatory fees	$ 82	$ -
Prepaid director fees	78	-
Prepaid rent	27	48
Prepaid insurance	170	77
Manufacturing deposits	871	557
Prepaid license fees	202	304
Prepaid clinical trial costs	2,267	-
Taxes receivable	1,703	1,079
Interest receivable	405	-
Deferred manufacturing costs	691	-
Other assets	890	342
Total prepaids and other current assets	**$ 7,386**	**$ 2,407**

6. Inventory

	As at June 30, 2014	As at December 31, 2013
Finished goods	$ 5,376	$ 2,713
Raw materials and work in process	$ 1,165	$ 1,634
Obsolete inventory	$ (1,540)	$ (317)
Inventory (net of obsolescence reserve)	**$ 5,001**	**$ 4,030**

Inventory amounts charged to cost of sales during the quarter is $1,650 ($3,094 and $908 for the six months ended June 30, 2014 and June 30, 2013 respectively). The Company increased its reserve for obsolete inventory by $958 during the quarter ($1,223 for the six months ended June 30, 2014).

(Stated in thousands of U.S. Dollars, except per share amounts)

7. Fixed Assets

Cost	Computers and IT Equipment	Office Furniture and Fixtures	Leasehold Improvements	Equipment	Total
Opening Balance as at January 1, 2014	$ 28	$ 90	$ 28	$ 343	$ 489
Additions	22	41	-	169	$ 232
Dispositions	-	-	-	(3)	$ (3)
Ending Balance	**$ 50**	**$ 131**	**$ 28**	**$ 509**	**$ 718**
Depreciation					
Opening Balance	$ 2	$ 3	$ -	$ 40	$ 45
Additions	6	14	6	27	$ 53
Dispositions	-	-	-	-	$ -
Ending Balance	**8**	**17**	**6**	**67**	**98**
Net Book Value as at June 30, 2014	**$ 42**	**$ 114**	**$ 22**	**$ 442**	**$ 620**

Cost	Computers and IT Equipment	Office Furniture and Fixtures	Leasehold Improvements	Equipment	Total
Opening Balance as at January 1, 2013	$ -	$ -	$ -	$ -	$ -
Additions	28	90	28	343	489
Dispositions	-	-	-	-	-
Ending Balance	**$ 28**	**$ 90**	**$ 28**	**$ 343**	**$ 489**
Depreciation					
Opening Balance	$ -	$ -	$ -	$ -	$ -
Additions	2	3	-	40	45
Dispositions	-	-	-	-	-
Ending Balance	**2**	**3**	**-**	**40**	**45**
Net Book Value as at December 31, 2013	**$ 26**	**$ 87**	**$ 28**	**$ 303**	**$ 444**

(Stated in thousands of U.S. Dollars, except per share amounts)

8. Intangible Assets

	Brands and Trademarks	Customer List	Intellectual Property	Total
Opening Balance as at January 1, 2014	$ 26,020	$ 2,880	$ 32,800	$ 61,700
Additions (Note 3)	-	-	-	-
Amortization	-	(340)	(820)	(1,160)
Ending Balance as at June 30, 2014	**$ 26,020**	**$ 2,540**	**$ 31,980**	**$ 60,540**

	Brands and Trademarks	Customer List	Intellectual Property	Total
Opening Balance as at January 1,2013	$ -	$ -	$ -	$ -
Additions	26,020	3,000	32,800	61,820
Amortization	-	(120)	-	(120)
Ending Balance as at December 31, 2013	**$ 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 that was acquired effective August 1, 2013 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 $170 and $340 has been recorded in the quarter and the six months ended June 30, 2014, respectively.

The intellectual property was acquired on December 20, 2013 as part of the acquisition of Pinnacle Biologics Inc. ("Pinnacle") and its subsidiaries. The intellectual property is amortized over a period of 20 years. Amortization of $410 and $820 has been recorded in the quarter and the six months ended June 30, 2014.

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

(Stated in thousands of U.S. Dollars, except per share amounts)

9. Goodwill

	As at June 30, 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 year end to determine whether there exist any indications of impairment.

10. Provisions

The below table sets forth movements in the Company's provisions balance during the period ended June 30, 2014 and December 31, 2013.

	As at June 30, 2014	As at December 31, 2013
Opening Balance	$ 24,208	$ -
Additions	5,599	49,775
Utilization	(14,797)	(25,567)
Closing Balance	**$ 15,010**	**$ 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.

(Stated in thousands of U.S. Dollars, except per share amounts)

11. Long Term Debt

Term Facility

On May 14, 2014 the Company entered into a Credit Facility with GE Capital, Canada Finance, Inc. and a syndicate of lenders. The Credit Facility is secured by the assets of the Company and the assets of its material subsidiaries. The Credit Facility bears a variable interest rate and matures on May 14, 2019 with fixed repayments required over the term to maturity, as well as mandatory repayments based on excess cash flow generated by the Company as defined in the Credit Facility agreement, calculated annually.

Interest rates are calculated at the U.S. Prime Rate or LIBOR plus applicable margins based on a leverage table. The Credit Facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. As at June 30, 2014 no such events of default have occurred. Under the terms of the Credit Facility the Company is required to comply with certain financial covenants under which the Company's total leverage ratio (as defined under the Credit Facility) cannot exceed 4.25:1.00, the senior leverage ratio (as defined under the Credit Facility) cannot exceed a certain cap ranging from 3.25:1.00 to 2.25:1.00, and the fixed charge ratio (as defined under the Credit Facility) cannot be less than 1.11:1. Throughout the six-month period ended June 30, 2014, the Company was in compliance with all of the financial covenants.

Transaction costs associated with the Credit Facility have been included as a reduction to the carrying amount of the liability and will be amortized through interest and accretion expense using the effective interest rate method. During the three months ended June 30, 2014 the Company recognized $189 in accretion interest using an effective interest rate of 4.95%. Interest expense on the Credit Facility was $881 for the three months ended June 30, 2014.

	As at June 30, 2014	As at December 31, 2013
Face value of the loans on issuance	$ 170,000	$ -
Less:		
Transaction costs	(5,495)	-
Book value upon issuance	164,505	-
Repayment of principal	-	-
Accretion interest	189	-
Carrying value	**$ 164,694**	**$ -**
Less: current portion	(14,564)	-
Long-term portion	**$ 150,130**	**$ -**

(Stated in thousands of U.S. Dollars, except per share amounts)

12. Senior and subordinate debt

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 was 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. On March 28, 2014, the Company repaid in full its senior and subordinate debt. Senior and subordinated debt as at June 30, 2014 and December 31, 2013 are summarized as follows:

	As at June 30, 2014	As at December 31, 2013
Face value of the loans on issuance	$ -	$ 21,150
Less:		
Fair value of warrants issued	-	$ (4,607)
Transaction costs	-	$ (1,100)
Book value upon issuance	-	$ 15,443
Repayment of principal	-	$ (5,408)
Accretion interest	-	$ 4,287
Carrying value	-	$ 14,322
Accrued interest	-	$ 644
Senior and Subordinate Debt	**$ -**	**$ 14,966**

13. Notes Payable

	As at June 30, 2014	As at December 31, 2013
Notes payable issued related to acquisition of Global	$ 6,162	$ 5,766
Less: Current portion	(662)	(662)
Long-term portion of Notes payable	**$ 5,500**	**$ 5,104**

The notes payable of $5,500 as at June 30, 2014 ($5,104 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 $23, respectively for the period ended June 30, 2014 ($nil and $nil for the three and six months ended June 30, 2013). The effective interest rate has been determined to be 13.67%.

Principal repayments are due subject to the achievement of certain EBITDA thresholds by Complete Medical Homecare ("CMH"), a subsidiary of the Company.

(Stated in thousands of U.S. Dollars, except per share amounts)

14. Purchase Consideration Payable

	As at June 30, 2014	As at December 31, 2013
Contingent purchase consideration		
Due to Shionogi Inc. [(1)]	$ 410	$ 792
Due to former owner of Global [(2)]	2,532	2,532
Due to former owners of Pinnacle [(3)]	16,465	15,326
Total contingent purchase consideration	**$ 19,407**	**$ 18,650**
Non-contingent purchase consideration		
Fair value of annual payments due to former owners of Pinnacle [(4)]	$ 5,392	$ 5,019
Consideration payable assumed on acquisition of Pinnacle	462	716
Total non-contingent purchase consideration	**$ 5,854**	**$ 5,735**
Total purchase consideration payable	**$ 25,261**	**$ 24,385**
Less: Current portion	(2,271)	(2,786)
Purchase consideration payable	**$ 22,990**	**$ 21,599**

(1) 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. The Company made a payment of $792 to Shinogi Inc. during the quarter.

(2) As part of the consideration for the Global Transaction, the Company is obligated to pay an additional earn-out payment of up to $4,000 payable in common shares of the Company 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 CMH exceeds $7,000 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 CMH for the preceding year multiplied by 14.285714%. The number of common shares of the Company 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 common shares of the company on the TSX. The aggregate earn-out payments are subject to a $4,000 cap.

(3) 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 June 30, 2014 and December 31, 2013 is $16,465 and $15,326, respectively. The change in fair value from March 31, 2014 of $573 has been recorded as an expense in the current period ($1,140 for the six months ended June 30, 2014).

(4) 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 $188 for the three months ended June 30, 2014 ($374 for the six months ended June 30, 2014).

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	$1,043	$6,000
Due to former owner of Global	$Nil	$4,000
Due to former owners of Pinnacle	$5,000	$42,500

15. 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 a n additional 1,000,000 common shares as compensation for consulting services and finder's fees related to the Global Transaction. 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 per share.

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 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 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 Agent's 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 and market price of $5.87. The Agent's options had an average fair value of $1.87 per Agent 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, 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, immediately upon completion of the Qualifying Transaction.

Prior to the Qualifying Transaction, 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 1,576,385 common shares 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.

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.

(Stated in thousands of U.S. Dollars, except per share amounts)

15. Share Capital (continued)

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.

The company recorded net proceeds of $56,998.

On May 15, 2014, the Company issued an aggregate of 4,605,833 common shares to Revive Pharmaceuticals for the purchase of Donnatal®, valued at $129,151 based on the closing price of the Company's stock on the TSX on May 15, 2014 of CAD$30.50 per share converted to USD using the May 15, 2014 Bank of Canada closing USD: CAD exchange rate of 1:1.0877.

The Company's board of directors approved a $0.30 per common share annualized 'eligible' dividend with $0.075 per common share being paid to shareholders on a quarterly basis.

16. Earnings (Loss) Per Share

	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Net Income (Loss) for the period attributable to shareholders	$ (827)	$ 4,150	$ (2,663)	$ 4,150
Weighted average number of ordinary shares in issue	26,215,431	1,647,945	21,606,746	1,647,945
Adjustments for:				
Dilutive Stock Options and agent warrants	-	1,875,000	-	1,875,000
Weighted average number of fully diluted shares	26,215,431	3,522,945	21,606,746	3,522,945
Earnings (Loss) per share:				
Basic	$ (0.03)	$ 2.52	$ (0.12)	$ 2.52
Diluted	$ (0.03)	$ 1.18	$ (0.12)	$ 1.18

(Stated in thousands of U.S. Dollars, except per share amounts)

17. Share Based Compensation

Employee Stock Option Plan

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 exercise price at which any option may be exercised to acquire a common share of the Company should be not less than the lesser of (i) the closing trading price of the common shares on the TSX on the date of grant and (ii) the volume-weighted average price of the common shares on the TSX for the five trading days immediately preceding the date of grant. As at June 30, 2014, the company had issued a total of 2,180,000 options to executive officers, employees and non-management members of the Board of Directors (June 30, 2013 – nil).

As at June 30, 2014, 517,883 stock options (June 30, 2013 – nil) 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	January 1, 2014	January 29, 2014	March 14, 2014	April 17, 2014	June 2, 2014
Number of options granted	100,000	330,000	335,000	50,000	5,000
Market price	$ 5.88	$ 10.32	$ 13.46	$ 19.52	$ 29.82
Fair value of each option granted	$ 4.53	$ 5.37	$ 6.86	$ 10.07	$ 15.39
Assumptions:					
Risk-Free Interest Rate	1.63%	1.63%	1.63%	1.63%	1.63%
Expected Life	3	3	3	3	3
Volatility	84.22%	79.48%	77.36%	78.55%	78.61%
Expected Forfeitures	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.

Mercari Options

In connection with the Qualifying Transaction, the Company issued 25,998 options to the former directors of Mercari (the "Mercari Options"). Each one of the Mercari Options is exchangeable for one common share of the Company at an exercise price of CAD $4.81 for a period of ten years. The Mercari Options were valued using a Black-Scholes option-pricing model at $63.

A pricing model with observable market based inputs was used to estimate the fair value of the Mercari's options issued. The variables used to compute the values were as follows: an expected life of two years; a risk free rate of 1.2%; a volatility rate of 100%; and an exercise price and market price of CAD $4.81. All of the Mercari options were exercised in the first quarter of 2014.

Agent Options

As described in Note 15, in connection with the Private Placement, the Company issued 220,800 Agent's Options to the syndicate of agents that conducted the Private Placement.

(Stated in thousands of U.S. Dollars, except per share amounts)

17. Share Based Compensation (continued)

Each Agent's Option is exchangeable for one common share of the Company at an exercise price of CAD $6.25 for a period of one year. During the six months ended June 30, 2014, 143,520 Agent's Options were exercised, leaving an outstanding balance of 77,280 unexercised options outstanding as at June 30, 2014.

Information with respect to stock option transactions for the period ended June 30, 2014 and June 30, 2013 is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance as at January 1, 2014	1,621,798	$ 3.86
Granted during the period	820,000	11.74
Cancelled during the period	(15,000)	0.19
Exercised during the period	(169,518)	5.48
Balance as at June 30, 2014	2,257,280	$ 6.23
Opening Balance January 1, 2013	-	-
Granted during the year	1,621,798	$ 3.86
Cancelled during the year	-	-
Exercised during the year	-	-
Balance as at December 31, 2013	1,621,798	$ 3.86

For the options exercised during the six-month period ended June 30, 2014, the weighted average market price on the date of exercise was $14.67.

As at June 30, 2014 outstanding stock options were as follows:

Year of Expiry	Exercise Price	Number of Shares	Exercisable
2023	$ 3.00	1,080,840	794,160
2023	$ 5.87	371,440	121,440
2024	$ 5.88	100,000	-
2024	$ 10.32	315,000	-
2024	$ 13.46	335,000	-
2024	$ 19.52	50,000	-
2024	$ 29.82	5,000	-
		2,257,280	915,600

(Stated in thousands of U.S. Dollars, except per share amounts)

18. Related Party Transactions

The Company had the following related party transactions during the three and six months ended June 30, 2014 and June 30, 2013:

	For the Three Months Ended June 30	
	2014	**2013**
Compensation of directors	$ 56	$ -
Legal fees paid or payable to firms affiliated with directors [(a)]	35	42
	$ 91	**$ 42**

	For the Six Months Ended June 30	
	2014	**2013**
Compensation of directors	$ 112	$ -
Legal fees paid or payable to firms affiliated with directors [(a)]	77	42
	$ 189	**$ 42**

(a) Legal fees include professional services for advice relating to intellectual property, corporate securities and other matters.

(Stated in thousands of U.S. Dollars, except per share amounts)

19. 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	$ 256
2015	239
2016	227
2017	163
2018	54
	$ 939

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.

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 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 June 30, 2014, there are no material claims against the Company.

(Stated in thousands of U.S. Dollars, except per share amounts)

20. 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**.** A 5% appreciation (depreciation) in the United States dollar price of Canadian dollars would result in gain (loss) of approximately $14 (December 31, 2013 - $52)

	As at June 30, 2014	As at December 31, 2013
	CAD$	CAD$
Cash	$ 1,077	$ 1,171
Accounts payable and accrued liabilities	(771)	(2,297)
	$ 306	**$ (1,126)**

20. 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. A 1% appreciation (depreciation) in the interest rate would result in gain (loss) of approximately $223 for the period of six month ended June 30, 2014.

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, accounts receivables 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 June 30, 2014, the allowance for doubtful accounts was $451 ($361 as at December 31, 2013).

The Company has concentration risk, as approximately 57.4% of total sales and 62.7% 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.

(Stated in thousands of U.S. Dollars, except per share amounts)

20. Financial Instruments and Management of Risk (continued)

The following table summarizes the Company's significant contractual undiscounted cash flows as at June 30, 2014 and December 31, 2013:

June 30, 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	$ 22,350	$ -	$ -	$ -	$ -	$ -	$ 22,350
Dividend payable	2,138	-	-	-	-	-	2,138
Provisions	-	15,010	-	-	-	-	15,010
Royalties payable	-	2,642	-	-	-	-	2,642
Taxes payable	-	2,058	-	-	-	-	2,058
Current portion of long-term debt		4,250	10,314	-	-	-	14,564
Long-term debt			-	53,231	102,205		155,436
Current portion of purchase consideration payable	-	-	2,439	-	-	-	2,439
Notes payable	-	-	-	662	4,500	1,000	6,162
Purchase consideration payable	-	-	-	1,527	9,815	39,744	51,086
	$ 24,488	**$ 23,960**	**$ 12,753**	**$ 55,420**	**$ 116,520**	**$ 40,744**	**$ 273,885**

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	2,421	6,052	15,735	-	-	-	$ 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	-	-	2,029	-	-	-	$ 2,029
Notes payable	-	-	-	1,800	4,200	1,000	$ 7,000
Purchase consideration payable	-	-		1,527	9,815	39,744	$ 51,086
	$ 48,654	**$ 10,132**	**$ 17,764**	**$ 3,327**	**$ 14,015**	**$ 40,744**	**$ 134,636**

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 ranging from 12% to 15% that reflect the Company's borrowing rate as at June 30, 2014. The Company's own non-performance risk was assessed to be insignificant as at June 30, 2014.

(Stated in thousands of U.S. Dollars, except per share amounts)

21. 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 June 30, 2014	As at December 31, 2013
Senior and subordinate debt	$ -	$ 14,966
Long-term debt	164,694	-
Notes payable	6,162	5,766
Stockholders' Equity	244,375	61,522
	$ 415,231	**$ 82,254**

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

22. 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 3 customers that made up 42.5% of total sales and 56.7% of total accounts receivable. The Specialty Healthcare Distribution Division had 14.9% of total sales and 6% of accounts receivable that was attributable to one customer.

(Stated in thousands of U.S. Dollars, except per share amounts)

22. 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 June 30, 2014 and June 30, 2013:

	Legacy Pharmaceuticals	Orphan Drugs	Specialty Healthcare Distribution	Corporate	Eliminations	Six months ended June 30, 2014
Revenue	$ 28,855	$ 4,348	$ 9,660	$ -	$ -	$ 42,863
Cost of sales	6,212	295	1,901	-	-	8,408
Gross profit	**22,643**	**4,053**	**7,759**	**-**	**-**	**34,455**
Operating expenses						
General & administrative	1,351	1,210	3,729	3,332	-	9,622
Selling and marketing	1,210	1,172	758	-	-	3,140
Research and development	842	2,507	-	-	-	3,349
Share based compensation	142	-	-	1,994	-	2,136
Acquisition related costs	7,878	-	-	610	-	8,488
Depreciation expense	12	3	28	7	-	50
Total operating expenses	**$ 11,435**	**$ 4,892**	**$ 4,515**	**$ 5,943**	**$ -**	**$ 26,785**
Operating income	**$ 11,208**	**$ (839)**	**$ 3,244**	**$ (5,943)**	**$ -**	**$ 7,670**
Interest and accretion expense	-	404	387	5,356	-	6,147
Change in fair value of contingent consideration	410	1,140	-	-	-	1,550
Amortization of Intangible Assets	-	820	340	-	-	1,160
Foreign Exchange (Gain) Loss	(18)	7	-	876	-	865
Other (Income) Expense	(9)	(3)	120	-	-	108
Income (Loss) Before Tax	**$ 10,825**	**$ (3,207)**	**$ 2,397**	**$(12,175)**	**$ -**	**$ (2,160)**
Income taxes (Recovery)	119	(379)	763	-	-	503
Net income (loss)	**$ 10,706**	**$ (2,828)**	**$ 1,634**	**$(12,175)**	**$ -**	**$ (2,663)**
Total Assets	$ 227,947	$ 124,514	$ 17,532	$ 386,269	$ (266,127)	**$ 490,135**
Total Liabilities	$ 35,280	$ 31,944	$ 10,826	$ 167,960	$ -	**$ 246,010**

(Stated in thousands of U.S. Dollars, except per share amounts)

22. Segmented Reporting (continued)

Geographic Segments

The Company's revenue by country of origin of external customer is all in the United States, with the exception of $247 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 June 30, 2014
Current assets	$ 34,405	$ 16,912	$ 13,876	$ 65,193
Non-current assets	354,032	36	70,874	$ 424,942
Total Assets	**388,437**	**16,948**	**84,750**	**490,135**
Current liabilities	33,919	3,260	24,516	61,695
Non-current liabilities	-	164,693	19,622	184,315
Total Liabilities	**$ 33,919**	**$ 167,953**	**$ 44,138**	**$ 246,010**

	Barbados	Canada	United States	As at December 31, 2013
Current assets	$ 54,416	$ 4,656	$ 13,292	$ 72,364
Non-current assets	26,456	38	71,907	98,401
Total Assets	**80,872**	**4,694**	**85,199**	**170,765**
Current liabilities	49,341	19,137	7,627	76,105
Non-current liabilities	-	-	33,138	33,138
Total Liabilities	**$ 49,341**	**$ 19,137**	**$ 40,765**	**$ 109,243**

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