Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX-MONTH PERIODS ENDED
SEPTEMBER 30, 2018

DATED, NOVEMBER 27, 2018

SCOPE OF THIS MANAGEMENT DISCUSSION & ANALYSIS AND NOTICE TO INVESTORS

This management discussion and analysis of financial position and results of operations ("MD&A"), is prepared as of November 27, 2018, and complements the unaudited condensed interim consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Company"), for the three and six-month periods ended September 30, 2018, which are compared to the three and six-month periods ended September 30, 2017.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the information contained in the audited consolidated financial statements of the Company and the notes thereto for the twelve-month period ended March 31, 2018.

The unaudited condensed interim consolidated financial statements and the MD&A have been reviewed by the audit committee and approved by the Company's Board of Directors on November 27, 2018. These documents and more information about the Company are available on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements made in this MD&A are forward-looking statements or information. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, the Company has assumed that the current market will continue and grow and that the risks listed below will not adversely impact the business of the Company. By their nature, forward looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of the Company that could influence actual results include, but are not limited to: future capital requirements and dilution; intellectual property protection and infringement risks; competition (including potential for generic competition); reliance on key management personnel; Pediapharm's ability to implement its business plan; regulatory approval by the Canadian Health authorities; product reimbursement by third party payers; patent litigation or patent expiry; litigation risk; stock price volatility; government regulation; potential third party claims. The Company's expected revenue in the Future Outlook section is based on historical revenue growth. Further, unless otherwise noted, any forward-looking statement speaks only as of the date of this MD&A, and, except as required by applicable law, the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of the Company, 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 statement.

KEY HIGHLIGHTS-PERIOD ENDED SEPTEMBER 30, 2018

The following highlights do not include the impact of events subsequent to the end of the quarter, including the acquisitions of Medexus Inc and Medac Pharma and the related $62 million (gross) financing completed in parallel with the closing of these acquisitions.

In the three-month period ended September 30, 2018, the Company achieved **record** quarterly revenue of $3,449,203 (three-month period ended September 30, 2017 - $3,083,397), representing an increase of 12%. Highlights for this quarter include:

- Adjusted EBITDA of $473,103 vs $87,578, representing an improvement of $385,525
- Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $1,144,643 (+89%) which exceeded Management's estimate and helped offset what Management believes is a temporary decrease in revenue from Established brands
- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 1%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue
- Improvement of $660,907 in cash flow used in operations

In the six-month period ended September 30, 2018, the Company achieved revenue of $6,698,342 (six-month period ended September 30, 2017 - $5,548,945), representing an increase of 21%. Highlights for this period include:

- Adjusted EBITDA of $179,586 vs ($609,519), representing an improvement of $789,105
- Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $2,865,287 (+124%) which exceeded Management's estimate and helped offset what Management believes is a temporary decrease in revenue from Established brands
- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 3%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue
- Improvement of $2,402,075 in cash flow used from operations

SUBSEQUENT EVENTS

Transaction

On October 16, 2018, the Company closed its acquisitions of two specialty pharmaceutical companies. Pediapharm completed the acquisition of all of the issued and outstanding shares of Medexus Inc. ("Medexus"), a Canadian pharmaceutical innovator with strategic partnerships in key international markets (the "Medexus Acquisition"). The total consideration paid by Pediapharm for the Medexus Acquisition is approximately CDN$23 million, which was satisfied through the issuance of 67,646,009 common shares of Pediapharm (the "Common Shares") to former holders of Medexus shares, at a deemed issue price of CDN$0.34 per Common Share.

Pediapharm also completed the acquisition of all of the issued and outstanding shares of Medac Pharma, Inc. ("Medac Pharma"), a privately held specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States, from medac Gesellschaft für klinische Spezialpräparate m.b.H. ("medac GmbH") (the "Medac Pharma Acquisition" and, together with the Medexus Acquisition, the "Acquisitions"). The total consideration payable by Pediapharm for the Medac Pharma Acquisition is up to U.S. $50 million,

of which a cash payment of U.S. $13.1 million was paid on closing, together with the issuance of 7,260,235 units of Pediapharm (the "Consideration Units") with a value of approximately U.S. $1.9 million with an issue price of CDN$0.34 per Consideration Unit. Each Consideration Unit consists of one Common Share and one half of one Common Share purchase warrant (each such full warrant being exercisable into one Common Share for a period of five years at an exercise price of CDN$0.63 per share). A contingent cash payment of U.S. $5 million and annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA of Pediapharm, subject to certain agreed-upon adjustments and until such time as an aggregate of U.S. $30 million in annual payments have been made, are also payable in connection with the Medac Pharma Acquisition.

Financing

Concurrently with closing of the transactions, the Company closed a private placement offering (the "Offering"). The Offering consisted of both a brokered private placement (the "Brokered Offering"), co-led by Cormark Securities Inc. and Mackie Research Capital Corporation, as co-lead agents and joint bookrunners (the "Agents"), and a concurrent non-brokered private placement (the "Non-Brokered Offering"). The Non-Brokered Offering was assisted by Goodwood Inc. The Company closed the Offering for aggregate gross proceeds of approximately $62 million.

NON-IFRS FINANCIAL MEASURES

EBITDA AND ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are non-IFRS financial measures. The term EBITDA (earnings before interest, taxes, depreciation and amortization,) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before financing costs, interest expenses, income taxes, interest income, depreciation of property and equipment, amortization of intangible assets, non-cash share-based compensation, income from sale of asset, impairment of intangible assets as well as fees related to the transactions and financing announced on October 16, 2018. The Company considers Adjusted EBITDA as a key metric in assessing business performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts. Adjusted EBITDA for the three-month period ended September 30, 2018 was $473,103 compared to $87,578 for the three-month period ended September 30, 2017. Adjusted EBITDA for the six-month period ended September 30, 2018 was $179,586 compared to ($609,519) for the six-month period ended September 30, 2017. The improvement is mainly due to the increase in gross profit driven by increase in revenue. This was somewhat offset by the additional selling and marketing expenses related to the launch of Cuvposa and the continued investments in Rupall and Otixal.

	For the 3-month period ended September 30, 2018 $	For the 3-month period ended September 30, 2017 $	For the 6-month period ended September 30, 2018 $	For the 6-month period ended September 30, 2017 $
Net Loss and Comprehensive Loss	(3,616,440)	(336,631)	(4,308,530)	(1,454,560)
Add Back:				
Depreciation & Amortization (property, equipment, intangible assets)	76,097	53,191	154,148	98,103
Interest expenses	168,667	168,667	335,500	335,500
Convertible debenture interest accretion net of deferred financing fee amortization	141,816	126,150	254,128	245,222
Interest income	(8,164)	(10,363)	(17,365)	(16,101)
EBITDA	**(3,238,024)**	**1,014**	**(3,582,119)**	**(791,835)**
Share-based compensation	40,222	86,564	90,800	182,316
Transaction fees (legal, tax, IP, etc)	3,670,905	-	3,670,905	-
ADJUSTED EBITDA	**473,103**	**87,578**	**179,586**	**(609,519)**

FUTURE OUTLOOK

Subsequent to the close of the quarter, on October 16, 2018, Pediapharm completed a transformative transaction whereby it amalgamated with a Canadian specialty pharma company, Medexus Inc. and acquired a USA based specialty pharma company, medac Pharma, Inc. In connection with these transactions, Pediapharm raised $62 Million (gross) through the offering of subscription receipts exchangeable into convertible debentures or units of Pediapharm, which were automatically exchanged on closing of the acquisitions. The proceeds raised through this offering were used to partially finance the acquisition of medac Pharma, Inc. and provide a strong financial position for future growth opportunities. Pediapharm is now a North American specialty pharma company with a solid portfolio of products in rheumatology plus its traditional pediatric business in Canada. From this much larger base, the Company will seek business development opportunities which leverage its commercial infrastructure in both the USA and Canada. These business development efforts will be supported by a strong balance sheet with over $30 million in cash, directly following the transactions.

The combination of these three entities creates an Adjusted EBITDA positive Company with strong potential for organic growth. Prior to the transactions, each entity (including Pediapharm) was generating double digit revenue growth and was either generated positive Adjusted EBITDA or was on the verge of generating positive Adjusted EBITDA. Together, this new Company has increased scale, a strong balance sheet and is expected to be cash flow positive. Management believes the additional business development activities will further leverage the existing commercial infrastructure and improve the financial results.

The Company has decided it will further enhance its business development efforts with additional resources to find opportunities that help build scale in the short to medium term. The Company is determined to accelerate its organic growth with product licensing and/or product and company acquisitions. As part of the medac Pharma, Inc. acquisition, the Company has a first right of refusal on current products in the medac GmbH portfolio (previous owner of Medac Pharma, Inc. with whom Pediapharm has a long-term distribution

agreement). The Company believes that several of these products represent a commercial opportunity in North America and is in the process of assessing the licensing of these drugs. The Company is also in discussion with several partners regarding other licensing agreements and believes that those products have the potential to make a material contribution within the next few years.

The new Pediapharm is committed to serving the targeted specialty areas of rheumatology and pediatrics with a deep portfolio of products for those therapeutic areas. We seek to offer cost effective drugs that enhance patients' quality of life.

The USA rheumatology business, medac Pharma, Inc. is experiencing strong, double digit, revenue growth from its lead product Rasuvo. Rasuvo is a once-weekly, subcutaneous, single-dose auto-injector of methotrexate indicated for the treatment of rheumatoid arthritis, psoriasis and juvenile idiopathic arthritis (JIA). It has excellent payor, prescriber and patient acceptance which has resulted in a leading share of the methotrexate auto-injector market. Management expects this growth to continue as prescribers adopt the most convenient form of methotrexate for their patients.

The Company has recently launched three new products in the pediatric business, Rupall™, Otixal™ and Cuvposa™. Each is in the early stage of launch and performing at or above management's expectations. Rupall™, launched in January 2017, is generating strong prescription growth year over year and is expected to be a leading prescription anti-histamine in a total market valued at $131.4 million, including $42.6 million from the Rx market which is growing at annual rate of 17% (IMS Data-MAT June 2018). Although Pediapharm currently focuses its commercial efforts on the Rx market, it is benefiting from the OTC market due to patients being switched from OTC antihistamines to Rupall by their physicians. Otixal™ a prescription product indicated for the treatment of acute otitis media with tympanostomy tubes (AOMT) in pediatric patients (age 6 months and older) was launched in May 2017. The Company estimates an annual peak sales potential of $4 million. Recently, in April 2018, the Company commercially launched, using its current infrastructure, Cuvposa™ (Glycopyrrolate oral solution 1 mg/ 5 mL) which is indicated for sialorrhea in patients aged 3-18 years with neurologic conditions such as cerebral palsy (CP). The receptivity of Cuvposa from the medical community and the patients is very positive as the product brings key clinical attributes when compared to currently available products and other invasive medical interventions. The Company believes there is an opportunity to gain additional market access through public reimbursements and is currently evaluating that strategy.

Within the Canadian rheumatology business, the Company is experiencing dramatic revenue growth due to public reimbursement of one of its core products, Metoject. Metoject, a pre-filled syringe of methotrexate, is indicated for the treatment of rheumatoid arthritis and psoriasis. It is a highly effective and cost-efficient treatment for these debilitating diseases. Public reimbursement creates access for a large group of patients who previously could not get the product.

In October of this year, the Company launched Triamcinolone Hexacetinide (TH), a leading treatment for JIA. TH had been the subject of a long-standing drug shortage and was being made available, by the Company, to children with JIA through the Special Access Program (SAP) of Health Canada. With the commercial launch of TH, children with JIA now have a reliable source for a product which is a key component for the management of their disease.

In summary, the Company is growing strongly and has a solid cash position from which to execute its business plan, including the launch of several new products. Management estimates that the upcoming expected revenue growth and stable operational expenses will bring the Company into a positive adjusted EBITDA situation in the current and future fiscal years.

CORPORATE STRUCTURE OF PEDIAPHARM

Pediapharm was incorporated in 2003 under the federal laws of Canada and commenced its operations in late 2007. The head office and registered and records office of Pediapharm are both located at 225 - 1 Place du Commerce, Verdun, Québec, H3E 1A2. As of the date of this MD&A, Pediapharm has two active

subsidiaries and one inactive subsidiary. Medexus Inc. is a direct, wholly owned active subsidiary of Pediapharm which was amalgamated under federal laws in Canada in 2018. Medexus Inc. is a Canadian specialty pharmaceutical company focused on the licensing, registration, marketing, sales and distribution of innovative pharmaceutical products in Canada with strategic partnerships in key international markets. The head office of Medexus Inc. is in Bolton, Ontario and the registered office is located at 1600, 333 – 7 Avenue S.W., Calgary, Alberta T2P 2Z1. Medac Pharma, Inc. is an indirect, wholly owned active subsidiary of Pediapharm which was incorporated in 2012 under the laws of Delaware. Medac Pharma, Inc. is a specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States through a solid implemented commercial infrastructure. The head office of Medac Pharma, Inc. is in Chicago, Illinois and the registered office is located at 1209 Orange Street, Wilmington, Delaware 19801. Pediapharm Licensing Inc. is a direct, wholly-owned, inactive subsidiary of Pediapharm which was incorporated in 2011 under the laws of Ontario. Pediapharm Licensing Inc. was granted a drug establishment license by Health Canada, which has since been transferred to, and is currently held by, Pediapharm. The registered office of Pediapharm Licensing Inc. is located at 4 Innovation Drive, Dundas, Ontario L9H 7P3.

BUSINESS OVERVIEW OF PEDIAPHARM

Pediapharm is a specialty pharmaceutical corporation that distributes innovative prescription medicines used to treat pathological conditions that mainly affect children from infancy to eighteen (18) years of age. With the recent acquisition of both Medexus and Medac US, the NEW combined entity has positioned itself as a Leading Specialty Pharma in North America, In addition to its initial focus on pediatric medicines, the recent transaction allows the Company to evolve its business model to include Rheumatology as key therapeutic areas and potentially other niche therapeutic areas The products that Pediapharm and the New combined entity distribute originate from transactions whereby Pediapharm and the NEW combined entity either acquires intellectual property rights through licensing agreements (commonly known as "in-licensing") that enables Pediapharm and the NEW combined entity to register the drug products with Health Canada and the FDA in order to commercialize them, or through outright acquisitions. Pediapharm does not produce, manufacture or develop products. For most products, Pediapharm and the NEW combined entity license finished products and sell them. In the case of products owned by Pediapharm and the NEW cobined entity or where it controls the supply chain, the Corporation uses third-party manufacturers to produce the finished goods. Pediapharm and the NEW combined entity may continue to acquire products that are already commercialized in Canada and United States. Pediapharm and Medexus also commercialize non prescription products (non-prescription drugs and medical devices) that are innovative and fulfill unmet medical needs of children and the adult as well but the core strategy remains on commercialising prescription (Rx) products. Pediapharm and the NEW combined entity presently do not develop any of its own products or own any patents, but may eventually partner in low-risk novel formulation development of known drugs in order to make them more amenable for both pediatric and adult use.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At September 30, 2018, total assets were $9,135,070 as opposed to $9,257,462 at March 31, 2018. The increase in accounts receivables and prepaid expenses were somewhat offset by lower cash and inventories. Seasonality of revenue is the main reason for the shifts in non-cash working capital items such as accounts receivables and inventories. Intangible assets increased to $2,791,583 compared with $2,602,330.

LIABILITIES

At September 30, 2018, total current liabilities were $5,655,953 compared with $1,874,067 at March 31, 2018. Accounts payable and accrued liabilities have increased by $3,778,832 mainly due to $3,670,905 in fees incurred in the six-month period ended September 30, 2018 associated with the transaction and financing of $62 million (gross) which closed on October 16, 2018.

Interest payable related to the March 30, 2015 private placement of secured, convertible debenture for

aggregate gross proceeds of $5,500,000 have remained at approximately $168,000.

At September 30, 2018, total long-term liabilities were $4,599,755 compared with $4,345,627 at March 31, 2018, as a result of the March 30, 2015 private placement of secured, convertible debenture interest accretion.

EQUITY

At September 30, 2018, Shareholders' Equity was ($1,120,637) compared with $3,037,768 as at March 31, 2018. The decrease is due to the aforementioned fees incurred in the period ended September 30, 2018 associated with the transaction and financing which closed on October 16, 2018. Therefore, a very large amount was added to liabilities while the addition of assets to the Balance Sheet (including the net proceeds of the financing) will only be added in the period ending on December 31, 2018. This is therefore a short-term situation and one should take into consideration the timing aspect when analyzing Shareholders' Equity in the period ended September 30, 2018.

OPERATING RESULTS ANALYSIS

	September 30, 2018 (3 months) $	**September 30, 2017 (3 months) $**	**September 30, 2018 (6 months) $**	**September 30, 2017 (6 months) $**
Revenue from Products	3,449,203	3,083,397	6,698,342	5,546,240
Revenue from Commissions	-	-	-	2,705
TOTAL Revenue	3,449,203	3,083,397	6,698,342	5,548,945
Gross Profit	1,855,321	1,715,228	3,593,321	3,002,278
Selling and administrative expenses	1,502,818	1,783,377	3,652,037	3,917,893
Transaction and financing expenses	3,670,905	-	3,670,905	-
Operating loss	(3,314,121)	(52,177)	(3,736,267)	(889,939)
Net loss	(3,616,440)	(336,631)	(4,308,530)	(1,454,560)
Cash flow used in operating activities	(191,888)	(852,795)	(525,414)	(2,927,489)
Cash flow used in investing activities	(332,863)	(864)	(340,243)	(299,132)
Cash flow from financing activities	59,325	(26,275)	59,325	4,956,967

FINANCIAL INFORMATION COMPARISON

REVENUE

For the three months ended September 30, 2018, total revenue reached $3,449,203 compared with revenue of $3,083,397 in the three months ended September 30, 2017, representing a 12% increase. Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May

2017 and April 2018, of $1,144,643 (+89%) which exceeded Management's estimate and helped offset what Management believes is a temporary decrease in revenue from Established brands. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 1%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue

For the six months ended September 30, 2018, total revenue reached $6,698,342 compared with revenue of $5,548,945 in the six months ended September 30, 2017, representing a 21% increase. Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $2,865,287 (+24%) which exceeded Management's estimate and helped offset what Management believes is a temporary decrease in revenue from Established brands. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 3%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue

GROSS PROFIT AND MARGIN

In addition to actual cost of goods and royalties paid to partners, gross margins are impacted by amortization of assets generating revenue, allowances for potential product returns as well as warehouse and logistics expenses.

For the three months ended September 30, 2018, gross profit reached $1,855,321, representing an increase of 8% (three months ended September 30, 2017 - $1,715,228). Gross margin as a percentage of revenue was 54% (three months ended September 30, 2017 – 56%). For the six months ended September 30, 2018, gross profit reached $3,593,321, representing an increase of 20% (six months ended September 30, 2017 - $3,002,278). Gross margin as a percentage of revenue was 54% (six months ended September 30, 2017 – 54%).

The accelerated growth of newly launched products had a positive impact on gross margin as a percentage of revenue. However, this was offset by lower gross margins for Relaxa™ which is due to the nature of its product category as well as the aforementioned recently implemented regulation from the province of Quebec. Over time, with the estimated revenue growth from high gross margins products such as NYDA®, Rupall™, Otixal™ and Cuvposa, Management estimates that, based on Pediapharm's current product portfolio, total gross margins as a percentage of revenue will continue to improve and ultimately reach 60-65%.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended September 30, 2018, selling and administrative expenses reached $1,502,818 (three months ended September 30, 2017 - $1,783,377). For the six months ended September 30, 2018, selling and administrative expenses reached $3,652,037 (six months ended September 30, 2017 - $3,917,893).

This reflects the Company's commitment to keep investing in new product launches while having a minimal impact on operating expenses. Management believes these investments in Rupall™, Otixal™ and Cuvposa™ are key to the overall success of the Company.

OPERATING PROFIT OR LOSS

The operating loss for the three months ended September 30, 2018 was $3,314,121 compared to $52,177. in the three months ended September 30, 2017. While there were significant increases in both revenue and gross profit during that period, the main reason for the difference in operating loss is the $3,670,905 in fees and expenses associated with the aforementioned transaction and financing. There was an improvement of over $400,000 when adjusting for the one-time transaction and financing fees.

The operating loss for the six months ended September 30, 2018 was $3,736,267 compared to $889,939 in the six months ended September 30, 2017. While there were significant increases in both revenue and gross profit during that period, the main reason for the difference in operating loss is the $3,670,905 in fees and

expenses associated with the aforementioned transaction and financing. There was an improvement of over $820,000 when adjusting for the one-time transaction and financing fees.

ADJUSTED EBITDA

Adjusted EBITDA, defined in a previous section of the MD&A, for the three-month period ended September 30, 2018 was $473,103 compared to $87,578 for the three-month period ended September 30, 2017. The improvement is mainly due to the increase gross profit driven by the overall increase in revenue.

Adjusted EBITDA for the six-month period ended September 30, 2018 was $179,586 compared to ($609,519) for the six-month period ended September 30, 2017. The improvement is mainly due to the increase gross profit driven by the overall increase in revenue.

CASH FLOW ANALYSIS

Operating activities

For the three months ended September 30, 2018, cash flows used in operating activities was $191,888 compared with $852,795 for the three months ended September 30, 2017. For the six months ended September 30, 2018, cash flows used in operating activities was $525,414 compared with $2,927,489 for the six months ended September 30, 2017. The main reason for the improvement is the increases gross profit driven by the increases in revenue.

Investing activities

Most of the investing activities for Pediapharm involve the purchase of licenses, as well as the amortization charges as per Pediapharm's accounting policies.

For the three months ended September 30, 2018, cash flows used in investing activities was $332,863 (three months ended September 30, 2017 – $864). For the six months ended September 30, 2018, cash flows used in investing activities was $340,243 (six months ended September 30, 2017 – $299,132). The majority of these amounts include down payments or milestone payments for licensing/distribution agreements as well as Health Canada filing fees.

Financing activities

In the three months ended September 30, 2018 and 2017, there was no significant activity to report. In the six months ended September 30, 2018, there was no significant activity to report. However, in the six months ended September 30, 2017, cash flows from financing activities was $4,956,967 as a result of the net proceeds from a non-brokered private placement of $5,000,000.

SUMMARY OF ANNUAL RESULTS

The following tables set out financial performance highlights for the past three fiscal years.

	Twelve months ended March 31, 2018 $	Twelve months ended March 31, 2017 $	Twelve months ended March 31, 2016 $
Revenues from Products	10,006,437	5,951,474	3,504,696
Revenues from Commissions	2,730	255,665	245,540
Total Revenue	10,009,167	6,207,139	3,750,236
Gross Profit	5,401,626	3,428,746	2,454,237
Selling and Administrative Expenses	7,862,437	6,803,665	6,750,581
Other Income	-	2,570,200	3,134,249
Operating Loss	(2,811,472)	(789,545)	(1,339,717)
Total Loss and Comprehensive Loss	(3,482,645)	(1,831,887)	(2,299,294)
Cash flow used in operations	(3,861,847)	(1,258,273)	(1,286,300)
Cash & cash equivalents	3,608,506	3,241,097	4,941,494
Assets	9,257,462	7,727,641	7,653,194
Long-term liabilities	4,345,627	4,323,821	3,910,695
Dividends	-	-	-

SUMMARY OF QUARTERLY RESULTS

	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $
	30-Sep-18	**30-Jun-18**	**31-Mar-18**	**31-Dec-17**	**30-Sep-17**	**30-Jun-17**	**31-Mar-17**	**31-Dec-16**
Revenues from Products	3,449,203	3,249,139	2,103,439	2,356,782	3,083,397	2,462,819	1,642,538	1,694,294
Revenues from Commissions	-	-	-	-	-	2,730	16,250	78,750
Total Revenue	3,449,203	3,249,139	2,103,439	2,356,782	3,083,397	2,465,549	1,658,788	1,773,044
Gross Profit	1,855,321	1,738,000	860,694	1,178,654	1,715,228	1,287,050	712,385	891,893
Selling and Administrative Expenses	1,502,818	2,149,219	2,063,415	1,881,129	1,783,377	2,134,516	1,871,811	1,656,245
Transaction and Financing expenses	3,670,905	-	-	-	-	-	-	-
Operating Loss	(3,314,121)	(422,146)	(1,204,949)	(716,585)	(52,177)	(837,761)	(1,117,704)	(783,509)
Net Loss	(3,616,440)	(692,090)	(1,021,994)	(1,006,092)	(336,631)	(1,117,928)	(1,388,613)	(1,047,750)
Cash flow from (used in) operations	(191,888)	(333,526)	(648,077)	(286,282)	(852,795)	(2,074,693)	(747,391)	(765,650)
Cash & cash equivalents, end of period	2,802,174	3,267,600	3,608,506	4,634,944	4,971,443	5,851,378	3,241,097	4,115,394
Assets	9,135,070	9,060,626	9,257,462	9,870,804	11,073,354	11,734,895	7,727,641	8,493,672
Long-term liabilities	4,599,755	4,457,939	4,345,627	4,702,692	4,569,043	4,442,893	4,323,821	4,211,429
Dividends	-	-	-	-	-	-	-	-

The main reasons explaining volatility in the Company's quarterly revenue are:

- The addition of Relaxa to the portfolio of Pediapharm's products, which occurred on September 19, 2016 as well as the launches of Rupall, Otixal and Cuvposa, respectively launched in January 2017, May 2017 and April 2018
- The seasonality of NYDA

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the six-month period ended September 30, 2018 with cash amounting to $2,802,174, which, in addition to the proceeds from the October 16, 2018 financing of $62 million (gross), is in excess of future expected cash outflows for at least the next twelve months. With the exception of the interest payments related to the $5,500,000 convertible debenture, there is no substantial debt or contractual cash commitment for the next twelve months.

RELATED PARTY TRANSACTIONS

Transactions with related parties during the period and amounts due to or from these parties as at September 30, 2018 and 2017 are disclosed in these condensed interim consolidated financial statements.
All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the three-month period ended September 30, 2018, the Company incurred a total of $12,133 in interest expense on the convertible debentures with 9346-4646 Québec Inc. and two Board members.

For the six-month period ended September 30, 2018, the Company incurred a total of $24,267 in interest expense on the convertible debentures with 9346-4646 Québec Inc. and two Board members.

CAPITAL RESOURCES

Pediapharm manages its capital structure and brings about adjustments related to changes in the economic environment and underlying risks of its assets. To preserve or modify its capital structure and to carry on the development and commercialization of technology and fulfill its various financial obligations, Pediapharm may issue additional shares or negotiate new loans.

CONTRACTUAL COMMITMENTS

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

	$
2019	80,725
2020	109,604
2021	109,604
2022	109,604

DESCRIPTION OF THE SECURITIES

Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of November 27, 2018, Pediapharm has 221,193,877 shares outstanding. There have been no dividends declared during the current period.

OFF -BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its condensed interim consolidated financial statements in accordance with IFRS, which require management to make estimates and assumptions that affect the amounts of its assets and liabilities, the information provided with regard to future assets and liabilities as well as the amounts of

revenues and expenses for the relevant periods.

The elements in the financial statements that require more use of estimates include valuation of stock options and warrants and impairment of fixed and intangible assets. Actual results may differ from these estimates, but management believes they will not result in material changes versus the results being presented. Readers are invited to refer to the audited consolidated financial statements for the year ended March 31, 2018 for a full description of the significant accounting policies of the Company at that date.

NEW STANDARDS ADOPTED BY THE COMPANY

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9 that introduced new classification and measurement requirements in 2009 and 2010 and a new hedge accounting model in 2013. In July 2014, the IASB released the final version of IFRS 9, which replaces earlier versions of IFRS 9 issued and completes the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company assessed the impact of the adoption of IFRS 9 on its consolidated financial statements and determined that there were no significant changes from the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 using the modified retrospective method of adoption in its consolidated financial statements for the annual period beginning on April 1, 2018. The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows.

The principles in IFRS 15 are applied using the following five steps: 1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognize revenue when (or as) the entity satisfies a performance obligation

Product revenue Performance obligations for product sales are primarily satisfied upon delivery of product to the Company's customers. Revenue is recorded on a net basis, representing the amounts receivable from customers after the deduction for discounts, returns and early payment discounts. The methodology and assumptions used to estimate discounts, returns and early payments discounts are monitored and adjusted in light of contractual and historical information. Invoices are generated at the time of product shipment and are payable in 30 days. The provision for returns is a complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return 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 product sales revenue. The Company estimates provisions for returns based upon historical experience if applicable, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and adjusts when it believes that actual product returns may differ from established reserves.

NEW STANDARDS NOT YET ADOPTED BY THE COMPANY

IFRS 16, Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS

16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.
There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

a) Fair value of stock options and warrants

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

b) Impairment of intangible assets

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

c) Fair value of convertible debentures

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

to fair value for the liability component. If other assumptions are used, the values derived could be significantly impacted.

d) Returns provision

The returns provision is calculated using management's best estimate of products that will ultimately be returned by customers. Estimation of the returns provision is based on historical experience with returned products and is deducted from revenues.

FINANCIAL INSTRUMENTS

Liquidity risk

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

Credit risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed rate instruments subject the Company to fair value risk, while floating rate instruments subject it to cash flow risk.

Disclosure controls and procedures

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, the related annual consolidated financial statements and its interim filings are properly recorded, processed, summarized and reported to its audit committee, its Board of Directors and its shareholders.

Internal controls over financial reporting

As an issuer on the TSX Venture Exchange, the CEO and the CFO are not required to certify that they have designed and evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting. Instead, the Company files a Certification of Annual Filings – Venture Issuer Basic Certificate that certifies the performance of a review of the information, no knowledge of misrepresentations and the fair presentation of the information in the annual filings.

Readers are referred to the more detailed information described in other disclosure documents filed with the applicable Canadian securities regulatory authorities and available at www.sedar.com.

Management of Pediapharm Inc.