Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2013

FEBRUARY 28, 2014

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 February 28, 2014, and complements the unaudited condensed interim consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Corporation"), which include Pediapharm Licensing Inc., its wholly owned subsidiary, for the three months and twelve months ended December 31, 2013, which are compared to the three months and twelve months ended December 31, 2012.

The condensed interim consolidated financial statements and related notes have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board. They do not contain all the information required to be disclosed in annual financial statements. Certain information and notes usually provided in the annual financial statements have been omitted or condensed when not deemed essential to the understanding of the interim financial information of the Corporation. Therefore, this MD&A should be read in conjunction with the information contained in the annual audited consolidated financial statements of the Corporation and the notes thereto for the year ended December 31, 2012. These audited financial statements are included as an attachment in the Management Information Circular of Chelsea Acquisition Corporation on SEDAR. All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars unless otherwise indicated.

The Corporation's independent auditors have not conducted a review of the interim financial report in accordance with the standards established by the Canadian Institute of Chartered Accountants regarding the review of the interim financial report.

The unaudited interim financial statements and the MD&A have been reviewed by the audit committee and approved by the Corporation's Board of Directors on February 28, 2014. These documents and more information about the Corporation 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 Corporation is hereby providing cautionary statements identifying important factors that could cause the Corporation'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 Corporation has assumed that the current market will continue and grow and that the risks listed below will not adversely impact the business of the Corporation. 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 Corporation that could influence actual results include, but are not limited to: future capital requirements; intellectual property protection and infringement risks; competition; reliance on key management personnel and the other risks factors summarized below under the heading "Risks and Uncertainties". 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 Corporation 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 Corporation, 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.

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. Pediapharm has one wholly-owned subsidiary, Pediapharm Licensing Inc., which was incorporated in 2011 under the laws of Ontario and was granted a drug establishment license by Health Canada. The registered office of Pediapharm Licensing Inc. is located at 4 Innovation Drive, Dundas, Ontario L9H 7P3. The Board of Directors of the Corporation has decided, following the amalgamation with Chelsea Acquisition Corporation completed on December 10, 2013, to change the Corporation's financial year-end from December 31 to March 31. Pursuant to section 4.8 of National Instrument 51-102 – *Continuous Disclosure Obligations*, the Corporation has filed on SEDAR a Notice of Change in Year End providing information about the length and filing dates of its annual audited financial statements and interim financial statements for both its transition year and subsequent financial years.

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. The products that Pediapharm distributes originate from transactions whereby Pediapharm either acquires intellectual property rights through a licensing agreement (commonly known as "in-licensing") that enables Pediapharm to register the drug products with Health Canada in order to commercialize them. As such, Pediapharm does not produce, manufacture or develop products, but rather licenses finished products and sells them. In the future, Pediapharm may acquire products that are already commercialized in Canada. Pediapharm also commercializes non-prescription products (non-prescription drugs, medical devices, diagnostic products) that are innovative and fulfill unmet medical needs of children.

Pediapharm presently does 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 pediatric use.

KEY HIGHLIGHTS-2013

- Total revenues for the twelve-month period ended December 31, 2013 increased by 61% compared to the same period in 2012, which includes a fourth quarter increase of 117% compared to same period in 2012;
- Operating loss for the twelve-month period ended December 31, 2013 decreased by $1,639,805 compared to the same period in 2012, which includes a fourth quarter decrease of $506,436 compared to same period in 2012;
- On December 27th 2013, the common shares of Pediapharm began to trade on the TSX Venture Exchange under the ticker symbol PDP.V following an amalgamation transaction with Chelsea Acquisition Corporation.
- Concurrently, the Corporation successfully completed a round of financing with gross proceeds of approximately $7,000,000;
- NYDA, a breakthrough treatment for head lice and its eggs, was a major contributor to the revenue growth.

QUALIFYING TRANSACTION

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

SUBSEQUENT EVENTS

On January 22, 2014, the Corporation's Board of Directors approved the grant of 3,585,000 stock options to certain directors, officers and employees of the Corporation, subject to regulatory and TSX Venture Exchange approval. The options were issued with an exercise price of $0.46 per share and have a term of ten (10) years. In addition, the options have varied vesting provisions such that they vest either over three (3) or four (4) years.

On February 17, 2014, the Corporation's Board of Directors approved the grant of 225,000 stock options to an officer of the Corporation under its employee stock option plan, subject to regulatory and TSX Venture Exchange approval. The options were issued with an exercise price of $0.46 per share, have a term of ten (10) years and have vesting provisions such that they vest over four (4) years.

On February 21, 2014, the Corporation completed a "bought deal" private placement of 5,555,556 common shares of the Corporation (the "Common Shares") at a price of $0.36 per common shares for gross proceeds of $2,000,000.16. The common shares are subject to a hold period expiring on June 22, 2014. The Offering is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the TSX Venture Exchange. All shares are admissible under the Quebec Stock Saving Plan.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS
At December 31, 2013, total assets were $8,262,599 as opposed to $1,705,991 at December 31, 2012. Cash has increased to $6,104,636 as a result of the private placements that occurred concurrently with the amalgamation with Chelsea Acquisiton Corporation. Accounts receivable is up by $774,585 mainly due to higher revenues. Inventories were up by $300,407, mostly explained by the following reasons: (i) Launch of two new products: Kool Effect Patch® and Vapolyptus Patch™; and (ii) two new SKU's of EpiCeram®.

LIABILITIES
At December 31, 2013, total current liabilities were $1,386,502 compared with $791,242 at December 31, 2012. The substantial increase is primarily due to increase in accounts payable as a result of expenses related to the amalgamation with Chelsea Acquisition Corporation.

At December 31, 2013, total long-term liabilities were $573,896, compared with $10,284,499 at December 31, 2012. The decrease is mainly due to the conversion of a convertible debt in 2013, as well as the move of $8,414,701 from long-term liabilities (Puttable Class "A" common shares and warrants) to Share Capital, as a result of the amalgamation with Chelsea Acquisition Corporation.

EQUITY
At December 31, 2013, Shareholders' equity was $6,302,202 compared with Shareholders' Deficiency of $(9,369,750), as a result of the amalgamation with Chelsea Acquisiton Corporation.

OPERATING RESULTS ANALYSIS

	December 31, 2013 (3 months)	**December 31, 2012 (3 months)**	**December 31, 2013 (12 months)**	**December 31, 2012 (12 months)**
Revenue	1,237,538	570,945	4,003,807	2,490,503
Selling and administrative expenses	1,289,916	1,129,759	4,443,971	4,570,472
Operating loss	(52,378)	(558,814)	(440,164)	(2,079,969)
Other expenses	1,650,746	101,144	2,073,027	166,099
Net loss	(1,703,124)	(659,958)	(2,513,191)	(2,246,068)
Cash flow from (used in) operating activities	(1,020,399)	(233,623)	(1,583,500)	(1,932,622)
Cash flow from (used in) investing activities	249,443	605	(61,789)	(78,372)
Cash flow from (used in) financing activities	6,375,730	286,284	7,157,548	1,804,644

FINANCIAL INFORMATION COMPARISON

REVENUE

For the three months ended December 31, 2013, revenues reached $1,237,538 compared with revenues of $570,945 in the three months ended December 31, 2012. The main reasons for the overall 117% increase are very solid performances of NYDA®, Allerject™ and Suprax®.

For the twelve months ended December 31, 2013, revenues reached $4,003,807 compared with revenues of $2,490,503 in the twelve months ended December 31, 2012. The main reasons for the overall 61% increase are important revenue growth from NYDA®'s, as well as the solid performance of Allerject™ and Suprax®.

OPERATING EXPENSES

For the three months ended December 31, 2013, selling and administrative expenses increased by $160,157 at $1,289,916 (2012 - $1,129,759). For the twelve months ended December 31, 2013, selling and administrative expenses decreased by $126,501 at $4,443,971 (2012 - $4,570,472). This is mainly due to Pediapharm's focus on managing costs while getting significant revenue increases.

OPERATING LOSS AND NET LOSS

The operating loss for the three months ended December 31, 2013 was $52,378 compared to the $558,814 in the three months ended December 31, 2012. The improvement was due to an increase in revenue of 117% as well as solid control of operating expenses. The net loss for the three months ended December 31, 2013 was $1,703,124 compared to the $659,958 in the three months ended December 31, 2012. The expenses related to the amalgamation with Chelsea Acquisition Corporation were the main reason for the difference.

The operating loss for the twelve months ended December 31, 2013 was $440,164 compared to the $2,079,969 in the twelve months ended December 31, 2012. The improvement was due to an increase in revenue of 61% as well as solid control of operating expenses. The net loss for the twelve months ended December 31, 2013 was $2,513,191 compared to the $2,246,068 in the twelve months ended December 31, 2012. The expenses related to the amalgamation with Chelsea Acquisition Corporation had an important impact on the 2013 figures.

CASH FLOW ANALYSIS

Operating activities

For the three months ended December 31, 2013, cash flows used in operating activities was $1,020,399 compared with $233,623 for the three months ended December 31, 2012. The increase is primarily due to the expenses related to the amalgamation with Chelsea Acquisition Corporation as well as the negative impact related to non-cash operating working capital items.

For the twelve months ended December 31, 2013, cash flows used in operating activities was $1,583,500 compared with $1,932,622 for the twelve months ended December 31, 2012. The expenses related to the amalgamation with Chelsea Acquisition Corporation had an impact on the 2013 figures.

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 December 31, 2013 and 2012, there was no significant investing activity, with the exception of the $178,272 received as part of the amalgamation with Chelsea Acquisition Corporation. For the twelve months ended December 31, 2013, investing activities utilized $61,789 mostly due to the acquisition of intangible assets in the amount of $122,787. For the twelve months ended December 31, 2012, only $78,422 worth of intangible assets was acquired.

Financing activities

For the three months ended December 31, 2013, financing activities generated $6,375,730 compared with $286,284 in the three months ended December 31, 2012. In the three months ended December 31, 2013, Pediapharm completed two private placements that were concurrent with the amalgamation with Chelsea Acquisition Corporation.

For the twelve months ended December 31, 2013, financing activities generated $7,157,548 compared with $1,804,644 in the twelve months ended December 31, 2012. In the twelve months ended December 31, 2013, in addition to the two private placements that were concurrent with the amalgamation with Chelsea Acquisition Corporation, Pediapharm received $370,000 from a loan and $500,000 from a convertible debenture. The latter was converted into shares of Pediapharm as a result of the amalgamation with Chelsea Acquisition Corporation.

SUMMARY OF ANNUAL RESULTS

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

	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010
Revenues	$2,490,503	$1,711,318	$1,193,328
Selling and Administrative Expenses	$4,570,472	$3,678,148	$3,362,048
Total comprehensive loss	($2,246,068)	($3,588,064)	($2,267,572)
Cash flow from (used in) operations	($1,932,622)	($1,495,206)	($973,617)
Cash & cash equivalents, end of period	$599,551	$807,801	$425,523
Assets	$1,705,991	$1,725,357	$1,347,964
Long-term liabilities	$10,284,499	$8,428,951	$4,676,086
Dividends	$0	$0	$0

SUMMARY OF QUARTERLY RESULTS

Prior to becoming a reporting issuer on December 10, 2013, the Corporation did not prepare quarterly financial statements.

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING
Pediapharm finished the twelve-month period ended December 31, 2013 with cash amounting to $6,104,636, which is in excess of future expected cash outflows for at least the next twelve months.

RELATED PARTY TRANSACTIONS
In the three months ended December 31, 2013, the Corporation paid management fees in the amount of $46,290 (2012 - $0) to 9198-4419 Quebec Inc., a company owned by the current Chief Financial Officer of the Corporation. In the twelve months ended December 31, 2013, the Corporation paid management fees in the amount of $68,790 (2012 - $0) to 9198-4419 Quebec Inc., a company owned by the current Chief Financial Officer of the Corporation.

In the three months ended December 31, 2013, the Corporation paid management fees in the amount of $10,000 (2012 - $0) to a Director of the Corporation for a project outside of the regular duties of a Director. In the twelve months ended December 31, 2013, the Corporation paid management fees in the amount of $10,000 (2012 - $0) to a Director of the Corporation for a project outside of the regular duties of a Director.

In the three months ended December 31, 2013, the Corporation paid consulting fees in the amount of $0 (2012 - $17,022) to a firm of which a Director of the Corporation is a partner. In the twelve months ended December 31, 2013, the Corporation paid consulting fees in the amount of $28,427 (2012 - $45,522) to a firm of which a Director of the Corporation is a partner.

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 payments required under an operating lease amount to $68,449 and will end in 2014.

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of February 28, 2014, Pediapharm has 71,998,856 shares outstanding.

OFF -BALANCE SHEET ARRANGEMENTS
The Corporation has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING POLICIES
The Corporation prepares its 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 allowance for doubtful accounts 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 December 31, 2012 for a full description of the significant accounting policies of the Corporation at that date. This document can be found in the Information Circular….

FUTURE CHANGES IN ACCOUNTING POLICIES
IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of

IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. Pediapharm is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015. Pediapharm will also consider the impact of the remaining phases of IFRS 9. There are no other IFRS or International Financial Reporting Interpretation Committee interpretations that are not yet effective that would be expected to have a material impact on Pediapharm.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires Pediapharm'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 financial statements are disclosed below. Actual results could differ from those estimates. Changes will be reported in the period in which they are identified.

Fair value of stock options and warrants

When Pediapharm 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 Pediapharm's stock over a relevant time frame, the determination of a relevant risk-free interest rate and an assumption regarding Pediapharm's dividend policy in the future. If other assumptions are used, the value derived for the instruments could be significantly impacted. See notes 12 and 14 of the financial statements for assumptions used to value these instruments.

Fair value of the pediapharm puttable class a common shares

A significant level of judgment was used to estimate fair value. Management considered factors which are not corroborated by observable market data to determine the fair value of these shares. Management uses a market approach which derives the implied equity value for Pediapharm from transactions involving Pediapharm's own securities. The basis for application of this method is transactions in equity securities of Pediapharm with unrelated investors. Management considers the financing in 2011 of Pediapharm Class A Common Shares as well as the Pediapharm Existing Warrants issued in 2012 and 2013, relevant transactions for determining the fair value of the Pediapharm Class A Common Shares. Management is not aware of any events as of this date that could affect the value of Pediapharm.

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.