Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND FIFTEEN MONTH PERIODS ENDED MARCH 31, 2014

DATED JULY 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 July 28, 2014, and complements the audited consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Company"), which include Pediapharm Licensing Inc., its wholly owned subsidiary, for the fifteen month period ended March 31, 2014.

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 fifteen month period ended March 31, 2014.

The audited consolidated financial statements and the MD&A have been reviewed by the audit committee and approved by the Company's Board of Directors on July 28, 2014. 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.

The amounts presented in MD&A are not comparable, since the period ending March 31, 2014 is a 15-month period and the comparative is the 12 months ended December 31, 2012.

KEY HIGHLIGHTS-PERIOD ENDED MARCH 31, 2014

(The period ended March 31, 2014 included fifteen months vs twelve months for the period ended December 31, 2012)

- Total revenues for the fifteen-month period ended March 31, 2014 increased by 88% compared to the twelve-month period ended December 31, 2012. Using a twelve-month run rate for the period ended March 31, 2014, the increase in revenue is 50%;

- NYDA®, a breakthrough treatment for head lice and its eggs, was a major contributor to the revenue growth and is on track to reach over $2,000,000 in revenue in 2014.

- The Company has over $7,000,000 of cash and cash equivalents as of March 31, 2014;

- 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 Company successfully completed a round of financing with gross proceeds of approximately $7,000,000;

- On February 21, 2014, the Company completed a "bought deal" private placement of 5,555,556 common shares of the Company at a price of $0.36 per common shares for gross proceeds of $2,000,000.

- As a result of its on-going business development efforts, Pediapharm has a long list of potential product acquisitions and licensing agreements under due diligence review.

SUBSEQUENT EVENTS

The Company announced the termination of its promotional sales agreements with Sanofi Canada ("Sanofi") for Suprax® and Allerject™, effective June 30, 2014. While this was disappointing news for the Company, Pediapharm knows this was not due to its own performance, as revenues for these products had experienced significant growth. In fact, the Company had tremendous success in more than doubling the revenues from Suprax® within 4 years.

Since then, the Company has entered into an exclusive supply and distribution agreement with Merz Pharma Canada, Ltd. regarding the Canadian rights to CUVPOSA™ (glycopyrrolate) oral solution intended for pediatric chronic severe drooling (sialorrhea) associated with neurologic conditions such as cerebral palsy. Pediapharm believes that CUVPOSA™ will be the first product to be officially approved in Canada to treat that disease and as such, the Company is hoping to be granted a Special Access Program and a priority review from Health Canada.

Furthermore, the Company and Hoffmann-La Roche Limited ("Roche") have entered into an asset purchase agreement regarding the Canadian rights to Roche's naproxen suspension. Roche will retain the Naprosyn™ trademark and retains all product rights to the other oral dosage forms under this brand. This product in its suspension form is only available under prescription (Rx) and is indicated for the treatment of osteoarthritis, rheumatoid arthritis, ankylosing spondylitis, and juvenile rheumatoid arthritis. Due to the significant unmet medical need, it will be reintroduced to the market as *Pediapharm naproxen suspension*.

On July 24, 2014, Pediapharm announced that a Special Access Program' (SAP) from Health Canada has been initiated for Naproxen suspension. This program allows physicians to prescribe the product to their patients when no commercially alternatives are available. This program has been initiated at the request of physicians mainly treating patients suffering of Juvenile Rheumatoid Arthritis (JRA). The product will be made available through Pediapharm and the SAP will be in place until the availability of Pediapharm Naproxen Suspension.

FUTURE OUTLOOK

Despite loss of agreement with Sanofi, the Company strives to achieve revenue growth in 2014. The Company's focus remains to execute its commercial plan with existing products, such as NYDA®, a revolutionary treatment indicated for eradication of head lice and its eggs. NYDA® is on track to reach over $2,000,000 in revenue in 2014 and has the potential to achieve peak revenues of $6,000,000 to $8,000,000 by 2017.

The Company has four products presently under review with Health Canada or in the process of being filed for approval from Health Canada. The following represents a list of these products: Easyhaler®-budesonide, Pediapharm Naproxen suspension, Cesinex® and CUVPOSA™. The 2 most advanced files are Easyhaler®-budesonide and Pediapharm Naproxen suspension with an estimated product launch by March 2015. Easyhaler®-budesonide will be competing in a market of $195 million and Pediapharm Naproxen suspension in a market of $76 million, including $8 million of the suspension form.

The Company's core strategy regarding business development remains to acquire exclusive licensing agreements (commonly known as "in-licensing"), as well as Canadian products, such as the aforementioned recent acquisition from Hoffmann-La Roche Limited. Before the end of 2014, Pediapharm expects to sign more license agreements and strives to acquire another Canadian product. This strategy will put Pediapharm in a strong position to further sustain its future growth.

In summary, Pediapharm has a strong cash position with over $7,000,000 as of March 31, 2014. With the excellent sales momentum of its current marketed products portfolio, including NYDA®, the Company is getting close to generating positive cash flow, even with the expenses related to recent and upcoming licensing agreements. The Company is in the process of assessing more exclusive licensing agreements and potential product acquisitions, and strives to add more products to its portfolio within this fiscal year and for years to come. Pediapharm is a growth company in the high-margin specialty pharmaceutical industry.

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 Company has decided, following the amalgamation with Chelsea Acquisition Corporation completed on December 10, 2013, to change the Company's financial year-end from December 31 to March 31. Pursuant to section 4.8 of National Instrument 51-102 – *Continuous Disclosure Obligations*, the Company 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. Pediapharm may also 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.

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 Company"). 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 Company began trading on the TSX Venture under the symbol "PDP" on December 27, 2013.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At March 31, 2014, total assets were $8,597,175 as opposed to $1,705,991 at December 31, 2012. Cash has increased to $7,092,224 as a result of the private placement that occurred concurrently with the amalgamation with Chelsea Acquisiton Corporation as well as a private placement with gross proceeds of $2,000,000 that was completed on February 21, 2014. Accounts receivable is up by $163,121 mainly due to higher revenues. Inventories were up by $241,311, 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 March 31, 2014, total current liabilities were $1,371,534 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 and the listing on the TSX Venture Exchange.

At March 31, 2014, total long-term liabilities were $4,693, 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 conversion of $8,414,701 of 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 March 31, 2014, Shareholders' equity was $7,220,948 compared with Shareholders' Deficiency of $(9,369,750) as at December 31, 2012, as a result of the aforementioned details regarding the amalgamation with Chelsea Acquisiton Corporation.

STOCK OPTIONS

On January 22, 2014, the Company's Board of Directors approved the grant of 3,585,000 stock options to certain directors, officers and employees of the Company. 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 Company's Board of Directors approved the grant of 225,000 stock options to an officer of the Company under its employee stock option plan. 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.

OPERATING RESULTS ANALYSIS

	March 31, 2014 (3 months)	March 31, 2013 (3 months)	March 31, 2014 (15 months)	December 31, 2012 (12 months)
Revenue	677,969	821,413	4,681,776	2,490,503
Selling and administrative expenses	1,772,634	1,031,633	6,216,605	4,570,472
Operating loss	(1,094,665)	(210,220)	(1,534,829)	(2,079,969)
Other expenses	471,777	129,093	2,544,804	166,099
Net loss	(1,566,442)	(339,314)	(4,079,633)	(2,246,068)
Cash flow from (used in) operating activities	(426,833)	(264,997)	(2,010,333)	(1,932,622)
Cash flow from (used in) investing activities	154,977	(117,588)	93,188	(78,372)
Cash flow from (used in) financing activities	1,252,270	367,750	8,409,818	1,804,644

FINANCIAL INFORMATION COMPARISON

(The period ended March 31, 2014 included fifteen months vs twelve months for the period ended December 31, 2012)

REVENUE

For the three months ended March 31, 2014, revenues reached $677,969 compared with revenues of $821,413 in the three months ended March 31, 2013. While there was a very strong revenue growth from NYDA®, it was somewhat offset by a reduction of revenue from sales of Suprax®, as a result of the termination of the Company's promotional sales agreements with Sanofi Canada for Suprax® and Allerject™. The termination, effective June 30, 2014, had a negative impact of approximately $200,000 in the three months ended March 31, 2014, since the Company could not recognize revenue on the annual performance bonuses it was tracking towards, which it is no longer entitled.

For the fifteen months ended March 31, 2014, revenues reached $4,681,776 compared with revenues of $2,490,503 in the twelve months ended December 31, 2012, representing a 88% growth. Using a twelve-month run rate for the period ended March 31, 2014, the increase in revenue is 50%. The main reasons for the overall increase are important revenue growth from NYDA® throughout the fifteen-month period, as well as the solid performance of Allerject™ and Suprax® during the twelve-month period ended December 31, 2013.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended March 31, 2014, selling and administrative expenses increased by $741,001 to $1,772,634 (2012 - $1,031,633). The main reasons for this important increase are the expenses associated with the fact Pediapharm became listed on the TSX Venture Exchange in December 2013, as well as stock-based compensation expenses of $205,693. Furthermore, the Company has added key management personnel such as the Chief Financial Officer and the newly appointed Vice President, Marketing and Sales, in support of the expected revenue and profit growth. For the fifteen months ended March 31, 2014, selling and administrative expenses increased by $1,646,133 at $6,216,605 (2012 - $4,570,472), as a result of the aforementioned reasons. Using a twelve-month run rate for the period ended March 31, 2014, the increase in operating expenses is 9% compared with 2012.

OPERATING LOSS AND NET LOSS

The operating loss for the three months ended March 31, 2014 was $1,094,665 compared to the $210,220 in the three months ended March 31, 2013. The net loss for the three months ended March 31, 2014 was $1,566,442 compared to the $339,314 in the three months ended March 31, 2013. The expenses related to the amalgamation with Chelsea Acquisition Corporation as well as the expenses associated with the fact Pediapharm became listed on the TSX Venture Exchange were the main reasons for the difference in net loss.

The operating loss for the fifteen months ended March 31, 2014 was $1,534,829 compared to the $2,079,969 in the twelve months ended December 31, 2012. The improvement was mainly due to the increase in revenue of 88%. The net loss for the fifteen months ended March 31, 2014 was $4,079,633 compared to the $2,246,068 in the twelve months ended December 31, 2012. The expenses related to the amalgamation with Chelsea Acquisition Corporation were the main reasons for the difference in net loss.

CASH FLOW ANALYSIS

Operating activities

For the three months ended March 31, 2014, cash flows used in operating activities was $426,833 compared with $264,997 for the three months ended March 31, 2013. The increase is primarily due to the payment of expenses related to the amalgamation with Chelsea Acquisition Corporation, some of which occurred in this period.

For the fifteen months ended March 31, 2014, cash flows used in operating activities was $2,010,333 compared with $1,932,622 for the twelve months ended December 31, 2012. The higher net loss for the fifteen months ended March 31, 2014 was offset by adjustments related to the amalgamation with Chelsea Acquisition Corporation.

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 March 31, 2014 and December 31, 2012, there was no significant investing activity. For the fifteen months ended March 31, 2014, cash flows provided from investing activities was $93,188 mostly due to the cash acquired through the amalgamation with Chelsea Acquisition Corporation offset by the acquisition of intangible assets in the amount of $123,854. For the twelve months ended December 31, 2012, only $78,422 worth of intangible assets was acquired.

Financing activities

For the three months ended March 31, 2014, financing activities generated $1,252,270 compared with $367,750 in the three months ended March 31, 2013. In the three months ended March 31, 2014, Pediapharm completed a private placement with gross proceeds of $2,000,000 and repaid a long-term debt in the amount of $720,000.

For the fifteen months ended March 31, 2014, financing activities generated $8,409,818 compared with $1,804,644 in the twelve months ended December 31, 2012. In the fifteen months ended March 31, 2014, the Company successfully completed a round of financing with gross proceeds of approximately $7,000,000 as well as completed a “bought deal” private placement with gross proceeds of $2,000,000.

SUMMARY OF ANNUAL RESULTS

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

	Fifteen months ended March 31, 2014	Twelve months ended December 31, 2012	Twelve months ended December 31, 2011
Revenues	$4,681,776	$2,490,503	$1,711,318
Selling and Administrative Expenses	$6,216,605	$4,570,472	$3,678,148
Total comprehensive loss	($4,079,633)	($2,246,068)	($3,588,064)
Cash flow from (used in) operations	($2,010,333)	($1,932,622)	($1,495,206)
Cash & cash equivalents, end of period	$7,092,224	$599,551	$807,801
Assets	$8,597,175	$1,705,991	$1,725,357
Long-term liabilities	$4,693	$10,284,499	$8,428,951
Dividends	$0	$0	$0

SUMMARY OF QUARTERLY RESULTS

Prior to becoming a reporting issuer on December 10, 2013, the Company did not prepare quarterly financial statements. Therefore, the Company is able to provide the last five quarters only.

	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31-Mar-14	**31-Dec-13**	**30-Sep-13**	**30-Jun-13**	**31-Mar-13**
Revenues	$677,969	$1,237,538	$1,094,596	$851,376	$821,413
Selling and Administrative Expenses	$1,772,634	$1,289,916	$1,061,867	$1,104,535	$1,031,633
Total comprehensive loss	($1,566,442)	($1,703,124)	($111,010)	($359,744)	($339,314)
Cash flow from (used in) operations	($426,833)	($1,020,399)	($251,593)	($238,095)	($264,997)
Cash & cash equivalents, end of period	$7,092,224	$6,104,636	$508,046	$346,935	$586,520
Assets	$8,597,175	$8,262,599	$3,011,612	$1,849,834	$1,962,317
Long-term liabilities	$4,693	$573,896	$9,384,684	$8,944,297	$10,428,765
Dividends	$0	$0	$0	$0	$0

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the fifteen-month period ended March 31, 2014 with cash amounting to $7,092,224, which is in excess of future expected cash outflows for at least the next twelve months. There are no substantial debt or contractual commitment for the next twelve months.

RELATED PARTY TRANSACTIONS

Transactions with related parties during the period and amounts due or from these parties as at March 31, 2014 are disclosed in the consolidated financial statements. All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

In the three months ended March 31, 2014, the Company paid management fees in the amount of $37,500 (2012 - $0) to a company owned by the current Chief Financial Officer of the Company. In the fifteen months ended March 31, 2014, the Company paid management fees in the amount of $106,290 (2012 - $0) to a company owned by the current Chief Financial Officer of the Company.

In the fifteen months ended March 31, 2014, the Company paid management fees in the amount of $10,000 (2012 - $0) to a Director of the Company for a project outside of the regular duties of a Director.

In the three months ended March 31, 2014, the Company paid consulting fees in the amount of $0 (2012 - $7,000) to a firm of which a Director of the Company is a partner. In the fifteen months ended March 31, 2014, the Company paid consulting fees in the amount of $28,427 (2012 - $45,522) to a firm of which a Director of the Company 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 a long-term operating lease for office space are as follows:

	$
2015	65,604
2016	79,605
2017	70,760

The Company has a commitment to pay US$150,000 on April 1, 2014 to a supplier for planned future product license.

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of July 28, 2014, Pediapharm has 72,055,856 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 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 period ended March 31, 2014 for a full description of the significant accounting policies of the Company at that date.

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 10 and 12 of the consolidated financial statements for assumptions used to value these instruments.

Impairment of intangible assets

Licenses 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 as from the date of the distribution approval granted by Health Canada or as from the date of the license contract signature, depending on the contract terms. Whenever licenses 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.

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.