Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND TWELVE MONTH PERIODS ENDED MARCH 31, 2015

DATED JULY 20, 2015

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 20, 2015, 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 twelve month period ended March 31, 2015.

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, 2015.

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 20, 2015. 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, 2015 is a 12-month period and the comparative is the 15 months ended March 31, 2014.

KEY HIGHLIGHTS-PERIOD ENDED MARCH 31, 2015
(The period ended March 31, 2015 included twelve months whereas the period ended March 31, 2014 included fifteen months)

- In the twelve-month period ended March 31, 2015 ("fiscal 2015"), revenue generated from the sale of Pediapharm branded products (ie excluding revenue from commissions) has increased by 74%. Revenue from commissions, a much smaller line item than revenue from Pediapharm branded products, has decreased by 80% due to the termination of the Company's promotional sales agreements with Sanofi Canada in the first quarter of fiscal 2014.

- In fiscal 2015, NYDA®, a breakthrough treatment for head lice and its eggs, grew by 95% (vs twelve-month run rate for the period ended March 31, 2014) and reached over $2,000,000 in revenue. With approximately 16.6% market share (IMS data- March 2015) and given the market trends favoring the use of NYDA due to a high level of lice resistance with competitive pesticide-based shampoos, Management believes NYDA is well positioned to reach $3,200,000 in fiscal 2016 and its projected annual peak sales of $6,000,000-$8,000,000 by fiscal 2018;

- The Company has over $6,700,000 of cash and cash equivalents as of March 31, 2015. This includes a private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000 completed on March 31 2015 through key strategic investors such as Bloom Burton Healthcare Structured Lending Fund, Knight Therapeutics Inc. and Senvest Capital Inc.

- The Company has signed **5 NEW AGREEMENTS IN 12 MONTHS:**

    - On April 4, 2014, the Company 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 most likely 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.

    - On July 2, 2014, the Company entered into its first asset purchase agreement by acquiring the Canadian rights of naproxen suspension from Hoffman La Roche (Roche). Roche retains the Naprosyn™ trademark and 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, juvenile rheumatoid arthritis and other pain conditions. It was reintroduced to the market in February 2015 as *Pediapharm naproxen suspension* and is competing in the Nonsteroidal anti-inflammatory drugs ("NSAID") market segment estimated to be at $76,000,000 (IMS data 2013).

    - On October 8, 2014, Pediapharm acquired the exclusive Canadian rights to a novel patented formulation of Ciprofloxacin 0.3% and Fluocinolone Acetonide 0.025% otic solution. Pediapharm intends to register the combination product for 2 indications in adults and children older than 6 months old: 1) acute otitis media in patients with tympanostomy tubes ("AOMT"); 2) acute otitis external (swimmer's ear). In addition to the recent results from two phase III trials in patients suffering from AOMT, Laboratories SALVAT S.A., Ltd has been commercializing this product with success since 2011 in several European countries, where the product captured between a 22% and 28% market share. In Canada, this novel combination product will be competing in a market estimated by management to be approximately at $25,000,000 (IMS data-2013).

    - On December 18, 2014, Pediapharm acquired the exclusive Canadian rights to rupatadine from Uriach y Compañia, a novel second generation antihistamine with a unique profile of anti-inflammatory properties. The Company intends to register both the adult and

pediatric products for the following indications: allergic rhinitis and urticaria. It will be competing in a market estimated to be at $105 million; including $17 million from prescriptions (Rx). As a reference, rupatadine tablets are already registered and authorized in more than 70 countries while the pediatric solution is already authorized in 43 countries.

- On March 9, 2015, Pediapharm entered into an asset purchase agreement regarding the US rights to Roche's naproxen oral suspension. Similarly to the Canadian indications, the product is primarily used for juvenile idiopathic arthritis in children 2 years or older due to its more flexible dose titration based on the child's weight. It is estimated that there are over 60,000 children presently living with arthritis in United States. This prescription of oral suspension product is also indicated for the relief of signs and symptoms of other medical pain conditions. Roche will retain the Naprosyn™ trademark and retains all product rights to the other oral dosage forms under this brand. Pediapharm's plan with this product is to commercialize it through a partner already active in the United States thus receiving down payments and royalty payments.

SUBSEQUENT EVENTS

On May 5, 2015, the Company announced that it has received a Notice of Deficiency – Withdrawal Letter from Health Canada regarding its new drug submission for Easyhaler Budesonide. The Company's file is eligible for the reconsideration process, which is part of normal regulatory actions available to sponsors. The Company has since filed such a request, as it believes that its filing has enough evidence to support regulatory approval.

On June 8, 2015, Pediapharm and G. Pohl-Boskamp GmbH & Co KG announced the extension of their exclusive Canadian distribution agreement for NYDA until at least 2021. The revised agreement includes additional renewal clauses and similar terms and conditions as were included in the previous agreement. Furthermore, the revised agreement does not contain any material financial changes from the previous agreement.

FUTURE OUTLOOK

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® reached over $2,000,000 in revenue in fiscal 2015, is expected to reach $3,200,000 in fiscal 2016 and has the potential to achieve annual peak revenues of $6,000,000 to $8,000,000 by fiscal 2018.

Pediapharm has a product pipeline of secured exclusive agreements which management believes will enable the Company to obtain its corporate annual revenue goal of reaching between $35,000,000 and $40,000,000 within the next 5-6 years. As described below, projected annual peak sales to be generated from existing licenses/products that have not yet been launched and/or require Health Canada approval are estimated at $35,000,000. The Company intends on filing 3 products over the next few months for estimated Health Canada approvals before December 2016.

The chart below contains information on the secured exclusive agreements that are expected to be launched in the next 18 months. This chart is identical to the one presented in the last quarterly MD&A of the Company dated March 2, 2015, except for the following: i) the Canadian Pediapharm Naproxen Suspension, having been launched as planned in February 2015, has been removed from the chart; ii) the US Pediapharm Naproxen Suspension has been added to the chart due to the fact the asset purchase agreement was signed in March 2015; and iii) the Easyhaler-budesonide launch date has been delayed by two quarters due to the aforementioned Notice of Deficiency – Withdrawal Letter from Health Canada regarding its new drug submission.

PRODUCT	PARTNER-COUNTRY	INDICATION	MARKET SIZE (CDN $)	EST. ANNUAL PEAK SALES (CDN $)	LAUNCH DATE
Pediapharm Naxoproxen Suspension USA (#)	Acquired from Roche - USA	Juvenile Rheumatoid Arthritis & Other Medical Pain Conditions	Suspension / Liquid: 50-80 M (internal estimation) Tablets > 500 M (internal estimation)	Accumulative 5 M based on milestones payments and royalties	Q-1 2016
Easyhaler – Budesonide (*)	Orion - Finland	Asthma	195M	15 M	Q-1 2016
Cuvposa (*)	Merz Pharma – USA	Severe Drooling – Cerebral Palsy	25M	5 M	Q-4 2016
Cetraxal-Plus (*)	Salvat Laboratories - Spain	Ear Infection, Swimmer's Ear	25M	4 M	Q-4 2016
Rupatadine (*)	Uriach - Spain	Antihistamine (RX Indication)	120M	6 M	Q-4 2016
TOTAL			**365M+**	**35 M**	

(#) US Product to be out licensed to a US commercial partner
(*) Canadian License which requires Health Canada Approval

Now that Pediapharm has positioned itself with a strong pipeline as shown above, the Company's core strategy regarding business development has recently evolved to focus more on acquisitions of products with existing sales and on co-promotion for products already approved in Canada. The key objective is to generate profitability in a timely fashion while pursuing the regulatory process of the agreements signed in 2014. In parallel, Pediapharm will still assess exclusive licensing agreements (commonly known as "in-licensing").

Furthermore, before the end of 2016, the Company intends to sign an agreement with a US commercial partner for the selling and marketing of its first product acquisition in the US; namely the Pediapharm Naproxen Suspension. Pediapharm believes that with this agreement, the Company will reach profitability more rapidly.

With the excellent sales momentum of its current marketed products portfolio, including NYDA®, the Company continues to make positive steps towards generating positive cash flow. The recent launch of Pediapharm Naproxen Suspension in Canada, the expected launch Pediapharm Naproxen Suspension in the US through a partner, as well as the anticipated launch of Easyhaler-budesonide in 2016, will positively impact revenue and profitability for years to come. In parallel, the Company is in the process of assessing potential product acquisitions, and strives to add more products to its portfolio within this fiscal year. Pediapharm is a growth company in the high-margin specialty pharmaceutical industry, and when opportunities arise to feed that growth, it may raise incremental capital to provide for necessary funding and flexibility.

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 the Company 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. Finally, although the core of the commercial approach is geared toward the children population, the Company also has opportunities to generate revenues in the adult market if its products are being prescribed for this patient population.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At March 31, 2015, total assets were $9,072,290 as opposed to $8,597,175 at March 31, 2014. Cash was impacted positively by the March 30, 2015 private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000. Accounts receivable is down by $126,841, and inventories have slightly increased to $369,752 (2014 - $348,144) mainly due to the inventory required for the Canadian launch of Pediapharm Naproxen Suspension, which occurred in February 2015. Intangible assets have increased by $757,558 due to down payments related to the new agreements signed with Hoffman La Roche, Merz Pharma Canada, Ltd, Laboratories SALVAT S.A., Ltd and Uriach y Compañia during fiscal 2015.

LIABILITIES

At March 31, 2015, total current liabilities were $999,036 compared with $1,371,534 at March 31, 2014, mainly due to deferred revenue, which consists of amounts received from commission and product sales in advance of revenue recognition. It has decreased from $264,327 to Nil as a result of revenue recognition timing.

At March 31, 2015, total long-term liabilities were $3,583,146, compared with $4,693 at March 31, 2014, as a result of the March 30, 2015 private placement of secured, convertible debenture.

EQUITY

At March 31, 2015, Shareholders' equity was $4,490,108 compared with $7,220,948 as at March 31, 2014, mainly due to the operating loss during fiscal 2015.

STOCK OPTIONS

On May 1, 2014, the Company also granted 100,000 stock options to a service provider. The options were issued with an exercise price of $0.36 per share, have a term of one year and have vesting provisions such that one twelfth of the options vest each month from the grant date.

On September 4, 2014, the Company granted 260,000 stock options to employees and directors of the Company. The options were issued with an exercise price of $0.30 per share and have a term of ten (10) years. 80,000 of the options have vesting provisions such that one fourth of the options vest on the first anniversary of the grant date and the remaining options may be exercised in the proportion of one fourth in each subsequent year, and 180,000 of the options have vesting provisions such that one third of the options may be exercised on the grant date and the remaining options may be exercised in the proportion of one third in each subsequent year.

OPERATING RESULTS ANALYSIS

	March 31, 2015 (3 months)	**March 31, 2014 (3 months)**	**March 31, 2015 (12 months)**	**March 31, 2014 (15 months)**
Revenue	406,655	677,969	3,068,683	4,681,776
Selling and administrative expenses	2,289,706	1,772,634	8,101,834	6,216,605
Net loss	(1,878,160)	(1,566,442)	(4,998,949)	(4,079,633)
Cash flow from (used in) operating activities	(1,200,010)	(426,833)	(4,560,600)	(2,010,333)
Cash flow from (used in) investing activities	81,512	154,977	(911,178)	93,188
Cash flow from (used in) financing activities	5,194,464	1,252,270	5,193,479	8,409,818

FINANCIAL INFORMATION COMPARISON
(The period ended March 31, 2015 included twelve months whereas the period ended March 31, 2014 included fifteen months)

REVENUE
For the three months ended March 31, 2015, revenues reached $406,655 compared with revenues of $677,969 in the three months ended March 31, 2014. While there was a strong revenue growth from NYDA®, it was offset by a reduction of revenue from sales of Suprax® and Allerject™, as a result of the termination of the Company's promotional sales agreements with Sanofi Canada. Revenue from Suprax® and Allerject™ in the three months ended March 31, 2014 were $360,322 (2015 – Nil).

For the twelve months ended March 31, 2015, revenues reached $3,068,683 compared with revenues of $4,681,776 in the fifteen months ended March 31, 2014. Revenue from sales of Pediapharm branded products increased by 39% (74% when using a twelve-month run rate for the period ended March 31, 2014). This was offset by a very large negative impact in revenue from commissions, which decreased by over $2,200,000 as a result of the aforementioned termination of the Company's promotional sales agreements with Sanofi Canada.

SELLING AND ADMINISTRATIVE EXPENSES
For the three months ended March 31, 2015, selling and administrative expenses increased by $517,072 to $2,289,706 (2014 - $1,772,634). The main reasons for this increase are the expenses associated with the additional marketing expenses, in support of the expected revenue and profit growth of NEW products such as Pediapharm Naproxen Suspension in Canada and in the US, as well as NYDA which is expected to keep growing significantly. Furthermore, since 80% of the Company's revenue comes from sales of Pediapharm branded products (2014 – 38%) vs revenue from commissions, expenses such as cost of goods and royalties increase accordingly.

For the twelve months ended March 31, 2015, selling and administrative expenses increased by $1,885,229 to $8,101,834 (2014 - $6,216,605), as a result of the aforementioned reasons.

NET LOSS
The net loss for the three months ended March 31, 2015 was $1,878,160 compared to the $1,566,442 in the three months ended March 31, 2014. The additional efforts in marketing & sales, business development as well as additional efforts associated with the 5 agreements signed in fiscal 2015 are the main reasons for the increased loss.

The net loss for the twelve months ended March 31, 2015 was $4,998,949 compared to the $4,079,633 in the fifteen months ended March 31, 2014. As stated above, the additional efforts in marketing & sales, business development as well as additional efforts associated with the 5 agreements signed in fiscal 2015 are the main reasons for the increased loss. Finally, for comparison purposes, it is to be noted that in the fifteen months ended March 31, 2014, the Company incurred $2,117,493 of expenses related to the amalgamation with Chelsea Acquisition Corporation.

CASH FLOW ANALYSIS

Operating activities
For the three months ended March 31, 2015, cash flows used in operating activities was $1,200,010 compared with $426,833 for the three months ended March 31, 2014. The main reason for the increase is higher net loss for the twelve months ended March 31, 2015.

For the twelve months ended March 31, 2015, cash flows used in operating activities was $4,560,600 compared with $2,010,333 for the fifteen months ended March 31, 2014. The main reason for the increase is higher net loss for the twelve months ended March 31, 2015. Furthermore, changes in non-cash operating working capital items had a negative impact on cash flows of $295,164 in the twelve months ended March 31, 2015 compared with a positive impact of $34,564 in the fifteen months ended March 31, 2014.

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, 2015 and March 31, 2014, there was no significant investing activity.

For the twelve months ended March 31, 2015, cash flows used in investing activities was $911,178 vs cash flows provided by investing activities for the fifteen months ended March 31, 2014 of $93,188. The significant increase is due to acquisition of 3 new licenses from Merz Pharma Canada, Ltd, Laboratories SALVAT S.A., Ltd and Uriach y Compañia, as well as 2 assets from Hoffman La Roche. In the fifteen months ended March 31, 2014, there was over $178,000 of cash acquired through the amalgamation with Chelsea Acquisition Corporation.

Financing activities
For the three months ended March 31, 2015, financing activities generated $5,194,464 compared with

$1,252,270 in the three months ended March 31, 2014. In the three months ended March 31, 2015, the Company completed a private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000. In the three months ended March 31, 2014, Pediapharm completed a "bought deal" private placement with gross proceeds of $2,000,000 and repaid a long-term debt in the amount of $720,000.

For the twelve months ended March 31, 2015, financing activities generated $5,193,479 compared with $8,049,818 in the fifteen months ended March 31, 2014. In the twelve months ended March 31, 2015, the Company completed a private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000. In the fifteen months ended March 31, 2014, the Company successfully completed a round of financing with gross proceeds of approximately $7,000,000, completed a "bought deal" private placement with gross proceeds of $2,000,000 and repaid a long-term debt in the amount of $720,000.

SUMMARY OF ANNUAL RESULTS

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

	Twelve months ended March 31, 2015	Fifteen months ended March 31, 2014	Twelve months ended December 31, 2012
Revenues	$3,068,683	$4,681,776	$2,490,503
Selling and Administrative Expenses	$8,101,834	$6,216,605	$4,570,472
Total comprehensive loss	($4,998,949)	($4,079,633)	($2,246,068)
Cash flow from (used in) operations	($4,560,600)	($2,010,333)	($1,932,622)
Cash & cash equivalents, end of period	$6,798,770	$7,092,224	$599,551
Assets	$9,072,290	$8,597,175	$1,705,991
Long-term liabilities	$3,583,146	$4,693	$10,284,499
Dividends		$0	$0

SUMMARY OF QUARTERLY RESULTS

	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended	Quarter ended
	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13
Revenues	$406,655	$848,511	$928,257	$885,260	$677,969	$1,237,538	$1,094,596	$851,376
Selling and Administrative Expenses	$2,289,706	$1,973,972	$2,121,969	$1,716,187	$1,772,634	$1,289,916	$1,061,868	$1,104,535
Total comprehensive loss	($1,878,160)	($1,121,145)	($1,186,937)	($812,707)	($1,566,442)	($1,703,124)	($111,010)	($359,744)
Cash flow from (used in) operations	($1,200,010)	($968,162)	($821,947)	($1,570,481)	($426,833)	($1,038,899)	($251,593)	($238,095)
Cash & cash equivalents, end of period	$6,798,770	$2,723,241	$4,401,313	$5,341,288	$7,092,224	$6,104,636	$508,046	$346,935
Assets	$9,072,290	$5,150,150	$6,178,755	$7,111,701	$8,597,175	$8,262,599	$3,011,612	$1,849,834
Long-term liabilities	$3,583,146	$1,500	$6,688	$7,649	$4,693	$573,896	$9,384,684	$8,944,297
Dividends	$0	$0	$0	$0	$0	$0	$0	$0

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

- The termination of the Company's promotional sales agreements with Sanofi Canada in the first quarter of 2014. Quarterly revenue from Sanofi commissions used to be approximately $400,000-500,000. The quarter ended June 30, 2014 was the last one that included revenue from Sanofi commissions ($325,000).

- The seasonality of NYDA, which represented more than 65% of the Company's revenue in the twelve months ended March 31, 2015. Historically, approximately 68-72% of revenue from NYDA is generated in the July-December period.

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the twelve-month period ended March 31, 2015 with cash amounting to $6,798,770, which 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 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 to or from these parties as at March 31, 2015 are disclosed in these consolidated financial statements.

All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the year ended March 31, 2015, the Company paid management fees in the amount of $159,930 (for the 15-month period ended March 31, 2014 –$106,290) to a company owned by the current Chief Financial Officer of the Company.

For the year ended March 31, 2015, the Company paid management fees in the amount of $7,000 (for the 15-month period ended March 31, 2014 – $10,000) to a Director of the Company for a project outside of the regular duties of a Director.

For the year ended March 31, 2015, the Company paid consulting fees in the amount of nil (for the 15-month period ended March 31, 2014 – $28,427) to a firm of which a Director of the Company is a partner.

For the year ended March 31, 2015, the Company paid legal fees in the amount of $74,421 (for the 15-month period ended March 31, 2014 – nil) 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:

	$
2016	122,207
2017	81,472

The Company also has commitments related to milestone payments it is required to pay to existing partners

if some key milestones are achieved, such as Health Canada approvals.

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of July 20, 2015, 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, 2015 for a full description of the significant accounting policies of the Company at that date.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9, Financial Instruments, 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, Financial Instruments, 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 is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7 require additional disclosures on transition from IAS 39 to IFRS 9. Amendments to IFRS 7 are applicable to annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements

In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective from January 1, 2016. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, and the related interpretations on revenue

recognition: IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC 31, Revenue – Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

There are no other IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company.

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.

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 other 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 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 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.

On May 5, 2015, the Company announced that it has received a Notice of Deficiency – Withdrawal Letter from Health Canada regarding its new drug submission for Easyhaler Budesonide, The Company's file is eligible for the reconsideration process, which is part of normal regulatory actions available to sponsors. The Company has since filed such a request, as it believes that its filing has enough evidence to support regulatory approval. As a result,

management concluded that no impairment is required for the capitalized licence costs related to this product.

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.

Financial Instruments

Liquidity risk

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 long-term debt.

Credit risk

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

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. The Company has performed a sensitivity analysis on interest rate risk as at March 31, 2015 and March 31, 2014. A change in interest rates on borrowings of 1% higher or lower will not have a significant impact on loss and comprehensive loss for the period.

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.