Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2015

DATED AUGUST 27, 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 August 27, 2015, and complements the unaudited condensed interim consolidated financial statements of Pediapharm Inc. ("Pediapharm" or the "Company"), which include Pediapharm Licensing Inc., its wholly owned subsidiary, for the three month period ended June 30, 2015, which are compared to the three month period ended June 30, 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. 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 Company. Therefore, 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 year ended March 31, 2015.

The unaudited condensed interim consolidated financial statements and the MD&A have been reviewed by the audit committee and approved by the Company's Board of Directors on August 27, 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.

KEY HIGHLIGHTS-PERIOD ENDED JUNE 30, 2015

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. On August 4th 2015, Pediapharm has submitted its reconsideration package to Health Canada regarding EASYHALER-Budesonide. The Company's objective remains to obtain a marketing approval by the end of 2015.

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.

NYDA's continued sales performance in the first quarter of fiscal 2016 is in line with the annual projected forecast. For the month of June 2015, the product captured 25.0 % market share in dollars in Canada (IMS Data-June 2015). This excellent performance is the result of a well-targeted marketing and promotional investment made by the Company with the key objective to fully exploit the sales potential of NYDA.

The Company has entered in discussion with numerous potential partners for the launch of its Naproxen Suspension in the United States. The objective is to finalize an agreement by the end of the 2015 with a product launch estimated to be in January-March 2016.

SUBSEQUENT EVENTS

On July 24th 2015, the Company has submitted to the Canadian Health Authorities its regulatory dossier of rupatadine, a novel generation of antihistamine to treat the symptoms of allergy and urticarial in both adults and children. Rupatadine has a unique dual activity by blocking both histamine H_1 and platelet-activating factor (PAF) receptors; thus, providing additional anti-allergic benefits to patients. It comes in a once-daily formulation and is also available in the form of suspension (liquid) for children.

The Canadian second-generation anti-histamine market is estimated to be $105 million; of which $17 million from products with a prescription (Rx) status, which are growing at a rate of approximately 15%. The entire antihistamine market was approximately $120 Million in 2013 (IMS Data-2013).

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 2 additional 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 MD&A of the Company dated July 20, 2015.

PRODUCT	PARTNER-COUNTRY	INDICATION	MARKET SIZE (CDN $)	EST. PEAK SALES (CDN $)	LAUNCH DATE
Pediapharm Naproxen 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 2015, 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 potential launch of Easyhaler-budesonide in 2016 assuming Health Canada's approval, 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 June 30, 2015, total assets were $7,723,984 as opposed to $9,072,290 at March 31, 2015. Cash has decreased to $5,526,526 as a result of the operating loss and the reduction of accounts payable and accrued liabilities. Prepaid expenses has decreased by $75,740 due to the fact many industry conferences demand a pre-payment for their spring events. Hence, many events that were pre-paid at March 31, 2015 have taken place in the three-month period ended June 30, 2015.

LIABILITIES

At June 30, 2015, total current liabilities were $1,040,816 compared with $999,036 at March 31, 2015. The increase is primarily due to the interest payable as a result of the March 31, 2015 private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of $5,500,000.

CONVERTIBLE DEBENTURES

On March 31, 2015, the Company closed a private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of $5,500,000. The offering consisted of: (i) a brokered offering of an aggregate of $4,975,000 principal amount of debentures and 3,014,850 warrants and (ii) a non-brokered offering of an aggregate of $525,000 principal amount of debentures and 318,150 warrants.

EQUITY

At June 30, 2015, Shareholders' equity was $3,057,223 compared with $4,490,108 as at March 31, 2015, mostly due to the comprehensive loss for the period.

STOCK OPTIONS
On May 1, 2014, the Company granted 100,000 stock options to a service provider. The options were issued with an exercise price of $0.36 per share, had a term of one year and had vesting provisions such that one twelfth of the options vest each month from the grant date. In April 2015, these options were exercised.

As at June 30, 2015, a total of 3,059,864 common shares remained authorized for issuance under the stock incentive plan.

All options granted become immediately exercisable in the event of any change of control of the Company.

OPERATING RESULTS ANALYSIS

	June 30, 2015 (3 months)	**June 30, 2014 (3 months)**
Revenue from Products	542,168	431,510
Revenue from Commissions	63,474	453,750
TOTAL Revenue	605,642	885,260
Selling and administrative expenses	1,999,890	1,716,187
Net loss	(1,594,646)	(812,707)
Cash flow from (used in) operating activities	(1,336,657)	(1,570,481)
Cash flow from (used in) investing activities	(3,840)	(179,758)
Cash flow from (used in) financing activities	70,965	-

FINANCIAL INFORMATION COMPARISON

REVENUE
For the three months ended June 30, 2015, revenues reached $605,642 compared with revenues of $885,260 in the three months ended June 30, 2014. Revenue from sales of Pediapharm branded products increased by $110,658 while revenue from commissions decreased by $390,276 as a result of the termination of the Company's promotional sales agreements with Sanofi Canada for Suprax® and Allerject™, effective June 30, 2014

SELLING AND ADMINISTRATIVE EXPENSES
For the three months ended June 30, 2015, selling and administrative expenses were $1,999,890 (2014 - $1,716,187). The main reasons for this increase are the additional efforts associated with the 5 agreements signed in fiscal 2015, 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. Finally, since 90% of the Company's revenue comes from sales of Pediapharm branded products (2014 – 49%) vs revenue from commissions, expenses such as cost of goods and royalties increase accordingly.

COMPREHENSIVE LOSS

The comprehensive loss for the three months ended June 30, 2015 was $1,594,646 compared to $812,707 in the three months ended June 30, 2014. The additional efforts associated with the 5 agreements signed in fiscal 2015 and the additional efforts in marketing & sales are the main reasons for the increased loss. There is also an expense of $168,779 in interest payable on the convertible debentures in the three months ended June 30, 2015.

CASH FLOW ANALYSIS

Operating activities

For the three months ended June 30, 2015, cash flows used in operating activities was $1,336,657 compared with $1,570,481 for the three months ended June 30, 2014. The increase of the comprehensive loss was offset by changes in non-cash working capital items. In the three months ended June 30, 2014, non-cash working capital items had a negative impact on cash flow of $956,617, mostly due to the payment of expenses. In comparison, in the three months ended June 30, 2015, non-cash working capital items had a much smaller negative impact on cash flow of $81,719.

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 June 30, 2015, the Company did not purchase intangible assets but in the three months ended June 30, 2014, it had purchased intangible assets in the amount of $167,301. The majority of this amount included a down payment for a licensing/distribution agreement.

Financing activities

For the three months ended June 30, 2015, the Company received $72,000 from the issuance of shares as a result of the exercise of warrants and options that were issued to third parties. In the three months ended June 30, 2014, there was no significant activity to report.

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 from Products	$2,496,828	$1,795,058	$979,097
Revenues from Commissions	$571,855	$2,886,718	$1,511,406
Total Revenue	$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
	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13
Revenues from Products	$542,168	479,065	749,246	837,007	431,510	338,896	434,589	437,188
Revenues from Commissions	$63,474	(72,410)	99,265	91,250	453,750	339,073	802,949	657,408
Total Revenue	$605,642	$406,655	$848,511	$928,257	$885,260	$677,969	$1,237,538	$1,094,596
Selling and Administrative Expenses	$1,999,890	$2,289,706	$1,973,972	$2,121,969	$1,716,187	$1,772,634	$1,289,916	$1,061,868
Total comprehensive loss	($1,594,646)	($1,878,160)	($1,121,145)	($1,186,937)	($812,707)	($1,566,442)	($1,703,124)	($111,010)
Cash flow from (used in) operations	($1,336,657)	($1,200,010)	($968,162)	($821,947)	($1,570,481)	($426,833)	($1,038,899)	($251,593)
Cash & cash equivalents, end of period	$5,526,526	$6,798,770	$2,723,241	$4,401,313	$5,341,288	$7,092,224	$6,104,636	$508,046
Assets	$7,723,984	$9,072,290	$5,150,150	$6,178,755	$7,111,701	$8,597,175	$8,262,599	$3,011,612
Long-term liabilities	$3,625,945	$3,583,146	$1,500	$6,688	$7,649	$4,693	$573,896	$9,384,684
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 three-month period ended June 30, 2015 with cash amounting to $5,526,526, 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 June 30, 2015 are disclosed in these consolidated financial statements.

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

For the three-month period ended June 30, 2015, the Company paid management fees in the amount of $37,500 (for the three-month period ended June 30, 2014 – $37,500) to a company owned by the current Chief Financial Officer of the Company.

For the three-month period ended June 30, 2015, the Company paid management fees in the amount of nil (for the three-month period ended June 30, 2014 – $7,000) to a Director of the Company for a project outside of the regular duties of a Director.

For the three-month period ended June 30, 2015, the Company paid legal fees in the amount of $7,125 (for the three-month period ended June 30, 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:

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

DESCRIPTION OF THE SECURITIES

Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of August 27, 2015, Pediapharm has 72,444,238 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

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 1st, 2018, with earlier application permitted. Pediapharm is currently evaluating the impact of the standard on its consolidated financial statements. 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.

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.