Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2015

DATED FEBRUARY 25, 2016

SCOPE OF THIS MANAGEMENT DISCUSSION & ANALYSIS AND NOTICE TO INVESTORS

This management discussion and analysis of financial position and results of operations ("MD&A"), is prepared as of February 25, 2016, 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 and nine month periods ended December 31, 2015, which are compared to the three and nine month periods ended December 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. 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 February 25, 2016. 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 – THREE-MONTH PERIOD ENDED DECEMBER 31, 2015

The Company's total revenue increased by 21% vs the same three-month period in 2014, including an increase of 25% from sales of Pediapharm branded products (vs revenue from commissions). In the nine months ended December 31, 2015, the Company's total revenue increased by 16% vs the same nine-month period in 2014, including an increase of 45% from sales of Pediapharm branded products (vs revenue from commissions)

NYDA's sales performance continued to be very solid. For the three-month period ended December 31, 2015, NYDA's revenue reached over $875,000, which represents a 34% increase compared to the three-month period ended December 31, 2014. In the nine months ended December 31, 2015, NYDA's revenue increased by 56% vs the same nine-month period in 2014. In the province of Quebec, NYDA is #1 in both unit and dollar market share (IMS data-December 2015) and is ranked # 2 in the rest of Canada (IMS Data-December 2015), where most of the upcoming commercial efforts will be invested. This performance confirms once again the excellent growth momentum obtained by NYDA since it was launched in Canada. Management estimates that NYDA has the potential to reach $3.2 million in its current fiscal year.

On November 16, 2015, the Company has submitted to the Canadian Health Authorities its regulatory dossier of Otixal®; a novel patented formulation of Ciprofloxacin 0.3% otic solution and Fluocinolone Acetonide 0.025% otic solution for the treatment of both acute otitis media in patients with tympanostomy tubes ("AOMT") and acute otitis external (swimmer's ear).

On December 31, 2015, the Company announced that Health Canada has upheld the May 2015 Notice of Deficiency - Withdrawal Letter regarding Easyhaler Budesonide, without prejudice to re-filing. Health Canada's decision is based on recommendations contained in a report issued by a reconsideration panel and Health Canada's Office of Science. The reconsideration panel was responsible to hear arguments from Pediapharm and Health Canada's Allergy and Respiratory Drugs Division and to submit recommendations to the Director General, who accepted them in a letter sent to Company. The Company will take the appropriate time to analyze the available documents and notes with its team of consultants and partner that have been involved during this process, in order to assess its potential alternatives.

SUBSEQUENT EVENTS

On February 2, 2016, the Company successfully completed a formal asset purchase agreement with an industry third party for the sale of its United States rights to Naproxen Suspension in a transaction valued at approximately US$4.25 million (the "Transaction"). Financial terms of the Transaction include: payment of US$2.25 million in cash which was received at closing and payment of US$2.0 million in cash conditional on Pediapharm being granted approval from the Food and Drug Administration ("FDA") of the manufacturing site transfer on or before September 30, 2016. This approval process is currently underway and is following its normal course. It was never Pediapharm's intention to commercialize Naproxen Suspension in the United States using its own infrastructure. This asset had yet to generate revenue for the Company.

The US$2.25 million received on February 1, 2016 is in addition to the $3.35 million of cash and cash equivalents the Company had at December 31, 2015.

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 as stated before (IMS data and Management's estimate).

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 $25,000,000 and $30,000,000 within the next 5-6 years. This projected peak sales forecast is based in using IMS data and the Management's estimate in the market share to be captured for each of the product. 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 $15,000,000 (IMS data and Management's estimate). The Company intends on filing Cuvposa™ over the next few months for estimated Health Canada approval before March 31st 2017.

The chart below contains information on the secured exclusive agreements that are expected to be launched in the next 14 months. This chart has been updated since the last MD&A dated November 30, 2015 to reflect some of the most recent activity.

PRODUCT	PARTNER-COUNTRY	INDICATION	MARKET SIZE (CDN $)	EST. ANNUAL PEAK SALES (CDN $) (2) (7)	LAUNCH DATE (Calendar Year) (8)
Rupatadine (Rupafin) (1)	Uriach - Spain	Antihistamine (RX Indication)	120M (6)	6M	Q-4 2016
Cetraxal-Plus (Otixal) (1)	Salvat Laboratories - Spain	Ear Infection, Swimmer's Ear	25M (5)	4M	Q-4 2016
Cuvposa (1)	Merz Pharma – USA	Severe Drooling – Cerebral Palsy	25M (4)	5M	Q-1 2017
TOTAL			**170M+**	**15M**	

(1) Canadian License which requires Health Canada Approval
(2) Estimated Annual Peak sales is usually achieved within approximately 5 to 7 years of a product launch
(3) IMS Data – June 2012
(4) Based on prevalence of Cerebral Palsy patients from the Public Health Agency of Canada
(5) IMS Data – December 2014
(6) IMS Data – December 2013
(7) Based on Market Data (see above footnotes) and Management's estimates
(8) Based on Health Canada's timelines regarding approval of submitted files

Now that Pediapharm has positioned itself with a strong pipeline as shown above, for which most of the regulatory investments are behind, 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 additional exclusive licensing agreements (commonly known as "in-licensing").

In summary, with the recent sale of its United States rights to Naproxen Suspension, the Company has a solid cash position to execute its business plan, including the upcoming potential launches of Rupafin™ and Otixal® in the second-half of 2016, assuming Health Canada's approvals. Furthermore, the strong revenue growth from Pediapharm branded products such as NYDA®, combined with the reduction of some of its operating expenses, are important steps towards generating positive cash flows. In parallel, the Company is in the process of assessing potential product acquisitions with the key objective to accelerate its strategy to generate positive cash flow over a short period of time. 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 December 31, 2015, total assets were $6,164,096 as opposed to $9,072,290 at March 31, 2015. Cash has decreased to $3,351,101 as a result of the operating loss, the payment of interest on convertible debentures as well as the expenses and milestone payments associated with the Heath Canada filing of previously announced exclusive licences. Prepaid expenses has decreased by $98,869 due to the fact most of the industry conferences request a pre-payment for their annual events. Hence, many events that were pre-paid at March 31, 2015 have taken place in the nine-month period ended December 31, 2015. Since April 1, 2015, intangible assets have increased by $216,148. In the nine-month period ended December 31, 2015, there have milestone payments and Health Canada filing fees for previously announced licensing/distribution agreements totalling $530,500, as well as depreciation and impairment expenses of over $300,000.

CURRENT LIABILITIES
At December 31, 2015, total current liabilities were $1,280,310 compared with $999,036 at March 31, 2015. Accounts payable and accrued liabilities increased by $115,420 due to timing of payments. There is also an increase of $168,667 in 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 December 31, 2015, Shareholders' equity was $1,171,483 compared with $4,490,108 as at March 31, 2015, mostly due to the comprehensive loss for the period.

SHARE-BASED COMPENSATION
As at December 31, 2015, a total of 1,875,342 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

	December 31, 2015 (3 months)	**December 31, 2014 (3 months)**	**December 31, 2015 (9 months)**	**December 31, 2014 (9 months)**
Revenue from Products	935,498	749,246	2,933,126	2,017,763
Revenue from Commissions	87,041	99,265	166,790	644,265
TOTAL Revenue	1,022,539	848,511	3,099,916	2,662,028
Gross Profit	689,358	594,347	2,037,565	1,931,759
Selling and administrative expenses	1,534,995	1,702,252	4,987,036	5,035,007
Operating loss	(1,094,932)	(1,125,460)	(3,249,936)	(3,150,099)
Net loss	(1,288,020)	(1,121,145)	(3,836,677)	(3,120,689)
Cash flow from (used in) operating activities	(547,889)	(968,327)	(3,018,240)	(3,360,853)
Cash flow from (used in) investing activities	(246,372)	(701,787)	(534,340)	(992,690)
Cash flow from (used in) financing activities	19,368	(985)	89,270	(985)

FINANCIAL INFORMATION COMPARISON

REVENUE
For the three months ended December 31, 2015, revenue reached $1,022,539 compared with revenue of $848,511 in the three months ended December 31, 2014, which represents a 21% increase. Revenue from sales of Pediapharm branded products increased by $186,252 due to the strong revenue growth from NYDA®, while revenue from commissions decreased by $12,224.

For the nine months ended December 31, 2015, revenue reached $3,099,916 compared with revenue of $2,662,028 in the nine months ended December 31, 2014, which represents a 16% increase. Revenue from sales of Pediapharm branded products increased by $915,363 due to the very strong revenue growth from

NYDA®, while revenue from commissions decreased by $477,475 mostly due to the termination of the Company's promotional sales agreements with Sanofi Canada for Suprax® and Allerject™, effective June 30, 2014.

GROSS PROFIT

For the three months ended December 31, 2015, gross profit reached $689,358 compared with gross profit of $594,347 in the three months ended December 31, 2014, which represents a 16% increase. Since cost of sales does not impact revenue from commissions, gross profit did not increase proportionally with the revenue growth.

For the nine months ended December 31, 2015, gross profit reached $2,037,565 compared with gross profit of $1,931,759 in the nine months ended December 31, 2014, which represents a 6% increase. This modest increase is mostly due to the fact that for the nine months ended December 31, 2015, revenue from commissions represented 5% of total revenue vs 24% in the same period of 2014. Since cost of sales does not impact revenue from commissions, gross profit did not increase proportionally with the revenue growth.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended December 31, 2015, selling and administrative expenses were $1,534,995 (2014 - $1,702,252). Selling and marketing expenses have decreased by $162,420 mostly due to the Company's on-going initiative to maximize effectiveness of its sales and marketing investments. General administration expenses have decreased by $49,722 while business development and regulatory affairs expenses have increased by $44,885. The main reasons for this increase are the additional efforts associated with the 5 agreements signed in fiscal 2015.

For the nine months ended December 31, 2015, selling and administrative expenses were $4,987,036 (2014 - $5,035,007). General administration expenses have decreased by $160,527, and business development and regulatory affairs expenses have increased by $283,118 to reach $1,231,067. The main reasons for this increase are the additional efforts associated with the 5 agreements signed in fiscal 2015, as well as the additional expenses related to the reconsideration process regarding Easyhaler Budesonide.

OPERATING LOSS

The operating loss for the three months ended December 31, 2015 was $1,094,932 compared to $1,125,460 in the three months ended December 31, 2014. While the 21% increase in revenue had a positive impact, the Company has recorded an impairment expense of $216,975 for the Easyhaler Budesonide capitalized license costs (included within intangible assets), as a result of Health Canada's decision to uphold the May 2015 Notice of Deficiency - Withdrawal Letter. Even if Health Canada's decision is without prejudice to re-filing, the Company has decided to impair the related intangible asset at this time.

The operating loss for the nine months ended December 31, 2015 was $3,249,936 compared to $3,150,099 in the nine months ended December 31, 2014. The 16% increase in revenue was somewhat offset by a change in the mix of revenue. In the nine months ended December 31, 2014, revenue from commissions reached $644,265 vs $166,790 in the same period of 2015. Since cost of sales does not impact revenue from commissions, the operating loss for the nine months ended December 31, 2015 was negatively impacted when comparing with the same period of 2014. Furthermore, the aforementioned impairment expense regarding Easyhaler Budesonide had an important negative impact on operating loss.

LOSS AND COMPREHENSIVE LOSS

The loss and comprehensive loss for the three months ended December 31, 2015 was $1,288,020 compared to $1,121,145 in the three months ended December 31, 2014. The three months ended December 31, 2015 was negatively impacted by $211,903 in finance costs 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. Furthermore, the aforementioned impairment expense regarding Easyhaler Budesonide had an important negative impact on operating loss.

The loss and comprehensive loss for the nine months ended December 31, 2015 was $3,836,677 compared to $3,120,689 in the nine months ended December 31, 2014. The nine months ended December 31, 2015 was negatively impacted by $635,791 in finance costs 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. Furthermore, the aforementioned impairment expense regarding Easyhaler Budesonide had an important negative impact on operating loss.

CASH FLOW ANALYSIS

Operating activities

For the three months ended December 31, 2015, cash flows used in operating activities was $547,889 compared with $968,327 for the three months ended December 31, 2014. While the net loss was slightly higher in the three months ended December 31, 2015 vs the same period in 2014, there were two large expenses that do not impact cash: $253,729 related to amortization of intangible assets and $137,215 in share-based compensation. These items, as well as the non-cash working capital items, were the main reasons for the large decrease in cash used in operating activities in the three months ended December 31, 2015 compared with the same period in 2014.

For the nine months ended December 31, 2015, cash flows used in operating activities was $3,018,240 compared with $3,360,853 for the nine months ended December 31, 2014.

Investing activities

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

For the three months ended December 31, 2015, the Company’s purchases and payments related to intangible assets reached $246,372 compared with $700,981 in the three months ended December 31, 2014. The majority of these amounts included down payments for licensing/distribution agreements as well as Health Canada filing fees.

For the nine months ended December 31, 2015, the Company’s purchases and payments related to intangible assets reached $530,501 compared with $935,130 in the nine months ended December 31, 2014. The majority of these amounts included down payments for licensing/distribution agreements as well as Health Canada filing fees.

Financing activities

For the three months ended December 31, 2015 and for the three months ended December 31, 2014, there was no significant activity to report.

For the nine months ended December 31, 2015, the Company received $92,460 from the issuance of shares as a result of the exercise of warrants and options that were issued to third parties. In the nine months ended December 31, 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

Gross Profit	$2,105,863	$4,042,689	$2,151,674
Selling and Administrative Expenses	$7,063,517	$5,516,570	$4,180,524
Operating Loss	($5,033,150)	($1,534,828)	($2,079,969)
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-Dec-15	**30-Sep-15**	**30-Jun-15**	**31-Mar-15**	**31-Dec-14**	**30-Sep-14**	**30-Jun-14**	**31-Mar-14**
Revenues from Products	$935,498	$1,455,459	$542,168	$479,065	$749,246	$837,007	$431,510	$338,896
Revenues from Commissions	$87,041	$16,275	$63,474	($72,410)	$99,265	$91,250	$453,750	$339,073
Total Revenue	$1,022,539	$1,471,734	$605,642	$406,655	$848,511	$928,257	$885,260	$677,969
Gross Profit	$689,358	$954,480	$393,726	$104,103	$594,347	$612,128	$725,284	$535,008
Selling and Administrative Expenses	$1,534,995	$1,688,949	$1,763,095	$1,958,510	$1,702,252	$1,789,763	$1,542,992	$1,577,735
Operating Loss	($1,094,932)	($760,755)	($1,394,251)	($1,883,051)	($1,125,460)	($1,193,712)	($830,927)	($1,060,002)
Total comprehensive loss	($1,288,020)	($954,011)	($1,594,646)	($1,878,160)	($1,121,145)	($1,186,937)	($812,707)	($1,566,442)
Cash flow from (used in) operations	($547,889)	($1,133,694)	($1,336,657)	($1,200,010)	($968,162)	($821,947)	($1,570,481)	($426,833)
Cash & cash equivalents, end of period	$3,351,101	$4,115,708	$5,526,526	$6,798,770	$2,723,241	$4,401,313	$5,341,288	$7,092,224
Assets	$6,164,096	$6,980,730	$7,723,984	$9,072,290	$5,150,150	$6,178,755	$7,111,701	$8,597,175
Long-term liabilities	$3,712,303	$3,669,124	$3,625,945	$3,583,146	$1,500	$6,688	$7,649	$4,693
Dividends	$0	$0	$0	$0	$0	$0	$0	$0

The two main reasons explaining volatility in the Company's quarterly results 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. Furthermore, gross profit does not necessarily increase proportionally with revenue since cost of sales impacts revenue from products sold but does not impact revenue from commissions. 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 period ended December 31, 2015 with cash amounting to $3,351,101. On February 1, 2016, the Company received US$2.25 million as a first payment for the sale of its United States

rights to Naproxen Suspension in a transaction valued at approximately US$4.25 million. The Company's cash position 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
All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the three-month period ended December 31, 2015, the Company paid management fees in the amount of $51,610 (for the three-month period ended December 31, 2014 – $37,500) to a company owned by the current Chief Financial Officer of the Company. For the nine-month period ended December 31, 2015, the Company paid management fees in the amount of $126,610 (for the nine-month period ended December 31, 2014 – $112,500) to a company owned by the current Chief Financial Officer of the Company.

For the nine-month period ended December 31, 2015, the Company paid management fees in the amount of nil (for the nine-month period ended December 31, 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 December 31, 2015, the Company paid legal fees in the amount of $13,432 (for the three-month period ended December 31, 2014 – $973) to a firm of which a Director of the Company is a partner. For the nine-month period ended December 31, 2015, the Company paid legal fees in the amount of $33,747 (for the nine-month period ended December 31, 2014 – $973) 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	79,605
2017	70,760

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of February 25, 2016, Pediapharm has 72,512,438 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.