Pediapharm inc.

Canada's Leading Pediatric Pharmaceutical Company

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE-MONTH PERIODS ENDED
MARCH 31, 2018

DATED, JULY 18, 2018

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 18, 2018, 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, 2018.

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, 2018.

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 18, 2018. 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 MARCH 31, 2018

In the three-month period ended March 31, 2018, the Company achieved quarterly revenue of $2,103,439 (three-month period ended March 31, 2017 - $1,658,788), representing an increase of 27%. Highlights for this quarter include:

- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) increased by 14%. Despite a reduction in the overall units of headlice treatments in Canada during the January-March 2018 period (IMS-Data January - March 2018), revenue generated from NYDA® increased by 13.4% and kept gaining market share across Canada
- Revenue from recently launched brands, Rupall™ and Otixal™, respectively launched in late January and May 2017, of over $590,000, which is significantly higher than Management's original estimate
- Adjusted EBITDA of ($1,119,984) vs ($1,268,759).

In the twelve-month period ended March 31, 2018, the Company achieved **record revenue** of $10,009,167 (twelve-month period ended March 31, 2017 - $6,207,139), representing an increase of 61% including:

- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) increased by 36%. Despite a reduction in the overall units of headlice treatments in Canada during the April 2017 – March 2018 period (IMS-Data April 2017 – March 2018), revenue generated from NYDA® increased by 8.5% and kept gaining market share across Canada
- Revenue from recently launched brands, Rupall™ and Otixal™, respectively launched in late January and May 2017, of over $2.3 million, which is significantly higher than Management's original estimate
- Adjusted EBITDA of ($2,312,498) vs ($2,973,505)

The Company continued its investments in the recently launched brands, especially with Rupall. Additional investments were deployed to allow the marketing and sales team to focus on the urticaria opportunity since antihistamines, such as Rupall, are used first-line to treat urticaria.

As previously stated and as shown in the fourth quarter, Management expects increases in selling and administrative expenses to be minimal when compared to previous years unless it sees specific opportunities where additional expenses would generate significant incremental revenue. The Company's plan remains to bring the Company into a positive Adjusted EBITDA situation in the fiscal year ending March 31, 2019.

On November 1st, 2017, Pediapharm announced Health Canada's notice of compliance (approval) for Cuvposa™ (Glycopyrrolate oral solution 1 mg/ 5 mL) which is indicated to reduce chronic severe drooling in patients aged 3-18 years with neurologic conditions associated with problem drooling (e.g. cerebral palsy (CP)). The Company commercially launched Cuvposa™ in April 2018 using its current infrastructure.

The Company has net working capital of approximately $4.8 million as of March 31, 2018 ($3.5 million as of March 31, 2017).

The Company now has $2.6 million in intangible assets as a result of exclusive in-licensing or distribution agreements it has signed since it started. Of that amount, more than $2.4 million is related to Rupall, Otixal and Cuvposa, which have just started to generate revenue after being recently launched.

On January 31, 2018, the Company announced its proposal to amend its existing convertible secured debentures (the "Debentures") and common share purchase warrants ("Warrants") issued on March 30, 2015 with a maturity date of March 30, 2019 (the "Original Maturity Date"). The Company has entered into agreements to extend $5,480,000 of the total Debentures issued to holders ("Holders') in connection with the original private placement, to extend the maturity date by one year, until March 30, 2020 (the "New Maturity Date").

In conjunction with the extension of the Debentures, the Company has also extended the maturity date of the aggregate 3,320,000 warrants (the "Warrants"), with the new expiry date to match the New Maturity Date.

On June 6, 2018, the Company received TSX Venture Exchange's final approval for the warrant and debenture term extension.

NON-IFRS FINANCIAL MEASURES

EBITDA AND ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are non-IFRS financial measures. The term EBITDA (earnings before interest, taxes, depreciation and amortization,) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before financing costs, interest expenses, income taxes, interest income, depreciation of property and equipment, amortization of intangible assets, non-cash share-based compensation, income from sale of asset and impairment of intangible assets. The Company considers Adjusted EBITDA as a key metric in assessing business performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts. Adjusted EBITDA for the three-month period ended March 31, 2018 was ($1,119,984) compared to ($1,268,759) for the three-month period ended March 31, 2017. The improvement is mainly due to the increase in gross profit driven by a 27% increase in revenue. Adjusted EBITDA for the twelve-month period ended March 31, 2018 was ($2,312,498) compared to ($2,973,505) for the twelve-month period ended March 31, 2017. The improvement is mainly due to the increase in gross profit driven by a 61% increase in revenue. This was somewhat offset by the additional selling and marketing expenses related to the launches of Rupall and Otixal™.

	For the 3-month period ended March 31, 2018 $	For the 3-month period ended March 31, 2017 $	For the 12-month period ended March 31, 2018 $	For the 12-month period ended March 31, 2017 $
Net Loss and Comprehensive Loss	(1,021,994)	(1,388,613)	(3,482,645)	(1,831,887)
Add Back:				
Depreciation & Amortization (property, equipment, intangible assets)	72,745	(45,379)	231,162	51,867
Interest expenses	165,613	165,000	669,167	669,168
Convertible debenture interest accretion net of deferred financing fee amortization	138,637	112,391	517,508	413,126
Gain on extension of convertible debenture maturity date	(475,702)	-	(475,702)	-
Interest income	(10,891)	(6,483)	(39,800)	(39,952)
Impairment loss on intangible assets	-	-	-	13,701
EBITDA	**(1,131,592)**	**(1,163,084)**	**(2,580,310)**	**(723,977)**
Income from sale of assets	-	-	-	(2,570,200)
Share-based compensation	11,608	(105,675)	267,812	320,672
ADJUSTED EBITDA	**(1,119,984)**	**(1,268,759)**	**(2,312,498)**	**(2,973,505)**

FUTURE OUTLOOK

The Company has recently launched three new products: Rupall™, Otixal™ and Cuvposa™. Rupall™ was launched in late January 2017 and Management is closely monitoring Key Performance Indicators ("KPIs"), such as number of physicians prescribing Rupall™. These early but very promising results, combined with the on-going positive feedback from key opinion leaders in allergy, confirm Management's estimate that Rupall™ has an annual peak sale potential of $10-12 million. Otixal™ was launched in mid-May 2017 and the Company estimates an annual peak sale potential of $4 million. In April 2018, the Company commercially launched, using its current infrastructure, Cuvposa™ (Glycopyrrolate oral solution 1 mg/ 5 mL) which is indicated to reduce chronic severe drooling in patients aged 3-18 years with neurologic conditions associated with problem drooling (e.g. cerebral palsy (CP)).

With its existing solid infrastructure in place, Management estimates that increases in selling and administrative expenses will be minimal even with its projected substantial revenue growth in quarters and years to come. Management therefore estimates that the Company will be in a positive adjusted EBITDA situation in the current fiscal year.

Pediapharm has a portfolio of products, which Management believes will enable the Company to reach annual peak revenue of $30,000,000 to $35,000,000 along with projected EBITDA of approximately 30% to revenue. The projected peak revenue forecast is based on using IMS data and Management's estimate in the

market share to be captured for each of the product. Historically, the Company included a chart showing peak revenue potential per product, but now that all pipeline products have been approved and commercially launched, a decision was made that the chart had served its purpose and therefore, is not included anymore.

Now that Pediapharm has positioned itself with a strong portfolio of products as shown above, for which all 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. In parallel, Pediapharm still assesses additional exclusive licensing agreements (commonly known as "in-licensing"). The key objective is to generate profitability in a timely fashion.

In summary, the Company has a solid cash position to execute its business plan, including the recent launches of Rupall™ in January 2017, Otixal™ in May 2017 and Cuvposa™ in April 2018. Furthermore, Pediapharm expects continuous revenue growth from Pediapharm's established brands such as NYDA®, Naproxen Suspension and Relaxa™. Management estimates that the upcoming expected revenue growth and stable operational expenses will bring the Company into a positive adjusted EBITDA situation in the current fiscal year. 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 inactive 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.

BUSINESS OVERVIEW OF PEDIAPHARM

Pediapharm is a specialty pharmaceutical corporation that distributes innovative prescription medicines used to treat pathological conditions that mainly affect children from infancy to eighteen (18) years of age. The products that Pediapharm distributes originate from transactions whereby Pediapharm either acquires intellectual property rights through licensing agreements (commonly known as "in-licensing") that enables Pediapharm to register the drug products with Health Canada in order to commercialize them, or through outright acquisitions. Pediapharm does not produce, manufacture or develop products. For most products, Pediapharm licenses finished products and sells them. In the case of products owned by Pediapharm or where it controls the supply chain, the Corporation uses third-party manufacturers to produce the finished goods. Pediapharm may continue to acquire products that are already commercialized in Canada. Pediapharm also commercializes non prescription products (non-prescription drugs and medical devices) that are innovative and fulfill unmet medical needs of children but the core strategy remains on commercialising prescription (Rx) products.

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 when its products are being prescribed for this patient population, as is the case with Rupall and Relaxa.

SELECTED FINANCIAL INFORMATION

FINANCIAL POSITION ANALYSIS

ASSETS

At March 31, 2018, total assets were $9,257,462 as opposed to $7,727,641 at March 31, 2017. The increase is mainly due to the $5,000,000 non-brokered private placement closed in May 2017. Furthermore, due to increased revenue and new product launches, both accounts receivable and inventories have increased as planned.

LIABILITIES

At March 31, 2018, total current liabilities were $1,874,067 compared with $2,108,184 at March 31, 2017. Accounts payable and accrued liabilities have decreased by $254,730 due to timing of payments. Interest payable related to the March 30, 2015 private placement of secured, convertible debenture for aggregate gross proceeds of $5,500,000 have remained at approximately $165,000. At March 31, 2018, total long-term liabilities were $4,345,627 compared with $4,323,821 at March 31, 2017, as a result of the March 30, 2015 private placement of secured, convertible debenture interest accretion. Furthermore, an amount of $475,702 was recognized to reflect the gain on the extension of the convertible debenture maturity date.

EQUITY

At March 31, 2018, Shareholders' equity was $3,037,768 compared with $1,295,636 as at March 31, 2017. The increase is mainly due to the $5,000,000 non-brokered private placement closed in June 2017, which was somewhat offset by the net loss during the twelve-month period ended March 31, 2018.

OPERATING RESULTS ANALYSIS

	March 31, 2018 (3 months) $	**March 31, 2017 (3 months) $**	**March 31, 2018 (12 months) $**	**March 31, 2017 (12 months) $**
Revenue from Products	2,103,439	1,642,538	10,006,437	5,951,474
Revenue from Commissions	-	16,250	2,730	255,665
TOTAL Revenue	2,103,439	1,658,788	10,009,167	6,207,139
Gross Profit	860,694	712,385	5,041,626	3,428,746
Selling and administrative expenses	2,063,415	1,871,811	7,862,437	6,803,665
Other Income	-	-	-	2,570,200
Operating loss	(1,204,949)	(1,117,704)	(2,811,472)	(789,545)
Net loss	(1,021,994)	(1,388,613)	(3,482,645)	(1,831,887)
Cash flow used in operating activities	(648,077)	(747,391)	(3,861,847)	(1,258,273)
Cash flow used in investing activities	(378,360)	(127,284)	(727,709)	(442,124)
Cash flow from financing activities	-	-	4,956,965	-

FINANCIAL INFORMATION COMPARISON

REVENUE

For the three months ended March 31, 2018, total revenue reached $2,103,439 compared with revenue of $1,658,788 in the three months ended March 31, 2017, representing a 27% increase. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) increased by 14%, including a 13.5% increase from NYDA®. Management also closely monitors data from IMS Health, an audited third-party provider of sales data and the overall units of head lice treatment in Canada has decreased by 8.1% (IMS-Data January - March 2018). Therefore, while the overall market decreases, possibly due to a reduction of headlice outbreak, NYDA keeps gaining market share. Revenue from recently launched brands, Rupall™ and Otixal™, respectively launched in late January and May 2017, reached over $590,000, which is significantly higher than Management's original estimate.

For the twelve months ended March 31, 2018, total revenue reached $10,009,167 compared with revenue of $6,207,139 in the twelve months ended March 31, 2017, representing a 61% increase. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) increased by 36%, including a 9% increase from NYDA®. Management also closely monitors data from IMS Health, an audited third-party provider of sales data and the overall units of head lice treatment in Canada has decreased by 11.6% (IMS-Data MAT March 2018). Therefore, while the overall market decreases, possibly due to a reduction of headlice outbreak, NYDA keeps gaining market share. Revenue from recently launched brands, Rupall™ and Otixal™, respectively launched in late January and May 2017, reached over $2.3 million, which is significantly higher than Management's original estimate.

GROSS PROFIT AND MARGIN

When comparing periods, in addition to focusing on gross profit dollars, it is also appropriate to focus on the gross margin as a percentage of revenue. Since there is no cost of sales related to revenue from commissions, the following gross margin percentages are calculated using cost of sales and revenue from products only. In addition to actual cost of goods and royalties paid to partners, gross margins are impacted by amortization of assets generating revenue, allowances for potential product returns as well as warehouse and logistics expenses.

For the three months ended March 31, 2018, gross profit reached $860,694, representing an increase of 21% (three months ended March 31, 2017 - $712,385). Gross margin as a percentage of revenue was 41% (three months ended March 31, 2017 – 42%). Relaxa™, which has lower gross margins due to the nature of its product category, has a negative impact on total gross margin percentages. Recently, the province of Quebec implemented a new regulation on Rx generic drugs, including the Active Pharmaceutical Ingredient (API) of Relaxa™, which had a negative impact on net revenue and gross margin. Over time, with the estimated revenue growth from NYDA®, Rupall™, Otixal™ and Cuvposa, the estimated revenue from Relaxa™ will represent a smaller percentage of total revenue and hence, Management estimates that total gross margins as a percentage of revenue will improve and ultimately reach 60-65%.

For the twelve months ended March 31, 2018, gross profit reached $5,041,626, representing an increase of 47% (twelve months ended March 31, 2017 - $3,428,746). Gross margin as a percentage of revenue was 50% (twelve months ended March 31, 2017 – 53%). The main reason for the lower gross margin percentage is related to Relaxa™, which has lower gross margins due to the nature of its product category. Furthermore, the Quebec Government recently implemented a new regulation on Rx generic drugs, including the Active Pharmaceutical Ingredient (API) of Relaxa™, which had a negative impact on net revenue and gross margin. Over time, with the estimated revenue growth from NYDA®, Rupall™, Otixal™ and Cuvposa, the estimated revenue from Relaxa™ will represent a smaller percentage of total revenue and hence, Management estimates that total gross margins as a percentage of revenue will improve and ultimately reach 60-65%.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended March 31, 2018, selling and administrative expenses reached $2,063,415 (three months ended March 31, 2017 - $1,871,811). For the twelve months ended March 31, 2018, selling and

administrative expenses reached $7,862,437 (twelve months ended March 31, 2017 - $6,803,665). The increase reflects the Company's commitment to invest in new product launches while having a minimal impact on operating expenses. Management believes these investments in Rupall™ and Otixal™ are key to the overall success of the Company.

OTHER INCOME
In the three and twelve months ended March 31, 2018, there was nothing to report as other income. In the three months ended June 30, 2016 the Company received the second and final payment of US$2 million in cash ($2,570,200) from the sale of the US rights to the drug Naproxen Suspension in a transaction valued at approximately US$4.25 million.

OPERATING PROFIT OR LOSS
The operating loss for the three months ended March 31, 2018 was $1,204,949 compared to $1,117,704. in the three months ended March 31, 2017. The significant increases in both revenue and gross profit were somewhat offset by the lower gross margin of Relaxa™.

The operating loss for the twelve months ended March 31, 2018 was $2,811,472 compared to $789,545 in the twelve months ended March 31, 2017. In the twelve months ended March 31, 2017, the Company benefited from the sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $2,570,200.

NET PROFIT OR LOSS
The net loss for the three months ended March 31, 2018 was $1,021,994 compared to $1,388,613 in the three months ended March 31, 2017. In both periods, the difference between operating loss and net loss is mainly due to finance costs, which are mostly related to 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.

The net loss for the twelve months ended March 31, 2018 was $3,482,645 compared to $1,831,887 in the twelve months ended March 31, 2017. In both periods, the difference between operating loss and net loss is mainly due to finance costs, which are mostly related to 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.

ADJUSTED EBITDA
Adjusted EBITDA, defined in a previous section of the MD&A, for the three-month period ended March 31, 2018 was ($1,119,984) compared to ($1,268,759) for the three-month period ended March 31, 2017. The improvement is mainly due to the increase gross profit driven by a 27% increase in revenue.

Adjusted EBITDA, for the twelve-month period ended March 31, 2018 was ($2,312,498) compared to ($2,973,505) for the twelve-month period ended March 31, 2017. The improvement is mainly due to the increase gross profit driven by a 61% increase in revenue. This was somewhat offset by the additional selling and marketing expenses related to the launches of Rupall and Otixal, which Management believes are key to the overall success of the Company.

CASH FLOW ANALYSIS

Operating activities
For the three months ended March 31, 2018, cash flows used in operating activities was $648,077 compared with $747,391 for the three months ended March 31, 2017. In the three months ended March 31, 2018, the change in non-cash operating working capital items had a positive impact of $629,686 (three months ended March 31, 2017 – positive impact of $670,231). Of that amount, there is a $242,291 decrease in accounts receivable, as well as an increase of $311,484 in inventories, both of which being linked to seasonality of sales.

For the twelve months ended March 31, 2018, cash flows used in operating activities was $3,861,847 compared with $1,258,273 for the twelve months ended March 31, 2017. In the twelve months ended March 31, 2017, the Company benefited from the sale of its US rights to the drug Naproxen Suspension, which had a positive impact of $2,570,200. In the twelve months ended March 31, 2018, the change in non-cash operating working capital items had a negative impact of $920,595 (twelve months ended March 31, 2017 – negative impact of $223,539). The main reason for the additional non-cash working capital is the significant increase in revenue during the twelve months ended March 31, 2018.

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, 2018, cash flows used in investing activities was $378,360 (three months ended March 31, 2017 – $127,284). For the twelve months ended March 31, 2018, cash flows used in investing activities was $727,709 (twelve months ended March 31, 2017 – $442,124). The majority of these amounts include down payments for licensing/distribution agreements and Health Canada filing fees.

Financing activities
In the three months ended March 31, 2018 and March 31, 2017, there was no significant activity to report. In the twelve months ended March 31, 2018, cash flows from financing activities was $4,956,965 as a result of the net proceeds from the aforementioned non-brokered private placement of $5,000,000. In the twelve months ended March 31, 2017, 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, 2017 $	Twelve months ended March 31, 2017 $	Twelve months ended March 31, 2016 $
Revenues from Products	10,006,437	5,951,474	3,504,696
Revenues from Commissions	2,730	255,665	245,540
Total Revenue	10,009,167	6,207,139	3,750,236
Gross Profit	5,401,626	3,428,746	2,454,237
Selling and Administrative Expenses	7,862,437	6,803,665	6,750,581
Other Income	-	2,570,200	3,134,249
Operating Loss	(2,811,472)	(789,545)	(1,339,717)
Total Loss and Comprehensive Loss	(3,482,645)	(1,831,887)	(2,299,294)
Cash flow used in operations	(3,861,847)	(1,258,273)	(1,286,300)
Cash & cash equivalents	3,608,506	3,241,097	4,941,494
Assets	9,257,462	7,727,641	7,653,194
Long-term liabilities	4,345,627	4,323,821	3,910,695
Dividends	-	-	-

SUMMARY OF QUARTERLY RESULTS

	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $	Quarter ended $
	31-Mar-18	**31-Dec-17**	**30-Sep-17**	**30-Jun-17**	**31-Mar-17**	**31-Dec-16**	**30-Sep-16**	**30-Jun-16**
Revenues from Products	2,103,439	2,356,782	3,083,397	2,462,819	1,642,538	1,694,294	1,803,397	811,246
Revenues from Commissions	-	-	-	2,730	16,250	78,750	78,750	81,915
Total Revenue	2,103,439	2,356,782	3,083,397	2,465,549	1,658,788	1,773,044	1,882,147	893,161
Gross Profit	860,694	1,178,654	1,715,228	1,287,050	712,385	891,893	1,220,919	603,549
Selling and Administrative Expenses	2,063,415	1,881,129	1,783,377	2,134,516	1,871,811	1,656,245	1,788,085	1,487,524
Operating Loss	(1,204,949)	(716,585)	(52,177)	(837,761)	(1,117,704)	(783,509)	(580,116)	1,691,784
Net Loss	(1,021,994)	(1,006,092)	(336,631)	(1,117,928)	(1,388,613)	(1,047,750)	(838,320)	1,442,796
Cash flow from (used in) operations	(648,077)	(286,282)	(852,795)	(2,074,693)	(747,391)	(765,650)	(1,303,782)	1,558,550
Cash & cash equivalents, end of period	3,608,506	4,634,944	4,971,443	5,851,378	3,241,097	4,115,394	5,110,318	6,499,670
Assets	9,257,462	9,870,804	11,073,354	11,734,895	7,727,641	8,493,672	8,891,210	9,542,163
Long-term liabilities	4,345,627	4,702,692	4,569,043	4,442,893	4,323,821	4,211,429	4,105,344	4,005,210
Dividends	-	-	-	-	-	-	-	-

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

- The addition of Relaxa to the portfolio of Pediapharm's products, which occurred on September 19, 2016 as well as the launches of Rupall and Otixal, respectively launched in January and May 2017.
- The seasonality of NYDA

LIQUIDITY, CAPITAL RESOURCES AND SOURCES OF FINANCING

Pediapharm finished the twelve-month period ended March 31, 2018 with cash amounting to $3,608,506, 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 years ended March 31, 2018 and 2017, and amounts due to or from these parties as at March 31, 2018 and 2017 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, 2018, the Company incurred no management fees (2017 – $43,810) with a company owned by the current Chief Financial Officer of the Company through a global exclusive licensing agreement (note 16).

For the year ended March 31, 2018, the Company incurred a total of $32,900 in interest expense on the convertible debentures with 9346-4646 Québec Inc. and a Board member, and a total of $9,000 is included in interest payable as at March 31, 2018.

For the year ended March 31, 2018, the Company incurred a total of $27,950 in legal fees with a company controlled by a Board member (2017 – $16,282) and a total of nil is included in accounts payable and accrued liabilities as at March 31, 2018 (2017 – $3,663).

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 payment required under a long-term operating lease for office space is as follows:

	$
2019	79,525

Total rent expense for the year ended March 31, 2018 was $120,597 (2017 – $125,018).

DESCRIPTION OF THE SECURITIES
Pediapharm authorized share capital consists of an unlimited number of Pediapharm Common Shares. As of July 18, 2018, Pediapharm has 87,414,986 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 condensed interim 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 year ended March 31, 2018 for a full description of the significant accounting policies of the Company at that date.

NEW STANDARDS NOT YET ADOPTED BY THE COMPANY

IFRS 9, Financial Instruments

The IASB previously published versions of IFRS 9 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, 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 assessed the impact of the adoption of IFRS 9 on its consolidated financial statements, and determined that no significant changes were expected.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main

exceptions are leases, financial instruments and insurance contracts. The Company assessed the impact of adoption of IFRS 15 on its financial statements, by reviewing selected revenue arrangement and assessing the differences in accounting for such contracts under the new guidance as compared with current revenue accounting standards, and determined that no significant changes were expected. The Company will adopt the new guidance using the modified retrospective approach, under which the new guidance will be adopted retrospectively with the cumulative effect of initial application of the guidance recognized on the date of initial application (which will be April 1, 2018).

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16. The new standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model for the lessee under which a lease liability and a right-of-use asset is recognized for all leases with a term of more than 12 months. IFRS 16 also substantially carries forward the lessor accounting requirements; accordingly, a lessor continues to classify its leases as operating leases or finance leases. IFRS 16 supersedes IAS 17, Leases, and related interpretations. IFRS 16 is effective for annual periods beginning on January 1, 2019 for the Company, with earlier application permitted for companies that also apply IFRS 15. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company'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 condensed interim consolidated 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 different 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 from the date of the distribution approval granted by Health Canada or from the date of the licence 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.

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.

d) Returns provision

The returns provision is calculated using management's best estimate of products that will ultimately be returned by customers. Estimation of the returns provision is based on historical experience with returned products and is deducted from revenues.

FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. 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 convertible debentures.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

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.