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## PEDIAPHARM ANNOUNCES TRANSFORMATIVE ACQUISITIONS AND \$60 MILLION OFFERING OF SUBSCRIPTION RECEIPTS

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MONTREAL, QUEBEC, September 6, 2018 – Pediapharm Inc. ("**Pediapharm**") (TSXV: PDP, OTCQX: PDDPF) is pleased to announce that it has entered into definitive agreements to acquire two speciality pharmaceutical companies and also intends to complete a private placement offering for up to CDN\$60 million.

Pediapharm has entered into an arm's length amalgamation agreement with Medexus Inc. ("**Medexus**"), a Canadian pharmaceutical innovator with strategic partnerships in key international markets, whereby Pediapharm will acquire all of the issued and outstanding shares of Medexus (the "**Medexus Acquisition**"). Pediapharm has also entered into an arm's length stock purchase agreement with medac Gesellschaft für klinische Spezialpräparate mbH ("**medac GmbH**"), a global pharmaceutical company based in Germany, whereby Pediapharm will acquire all of the shares of medac GmbH's U.S. business, Medac Pharma, Inc. ("**Medac Pharma**") (the "**Medac Pharma Acquisition**" and, together with the Medexus Acquisition, the "**Acquisitions**").

Pediapharm intends to complete a concurrent private placement offering (the "**Offering**") of subscription receipts for aggregate gross proceeds of approximately CDN\$60 million, consisting of a combination of subscription receipts exchangeable for Convertible Debentures (defined below) and subscription receipts exchangeable for Units (defined below). The Offering will consist of both a non-brokered private placement for gross proceeds of approximately CDN\$30 million (the "**Non-Brokered Offering**") and a brokered private placement for gross proceeds of approximately CDN\$30 million (the "**Brokered Offering**") co-led by Cormark Securities Inc. and Mackie Research Capital Corporation, as co-lead agents and joint bookrunners (together, the "**Agents**").

By combining Pediapharm's Canadian pediatric speciality pharmaceutical business with the Canadian diversified speciality pharmaceutical business of Medexus and the U.S. rheumatology speciality pharmaceutical business of Medac Pharma, the Acquisitions and Offering (collectively, the "**Transactions**") will create a leading North American commercial-stage specialty pharmaceutical company strategically positioned for future growth.

### THE ACQUISITIONS

#### *Medexus Acquisition*

Medexus is a Canadian specialty pharmaceutical company focused on the licensing, registration, marketing, sales and distribution of innovative pharmaceutical products in Canada, with strategic partnerships in key international markets. Medexus has a strong position in the Canadian marketplace

and focuses on key growth areas with an emphasis on rheumatology as well as women's health and dermatology. The healthcare solutions offered by Medexus include: Metoject®, Oralvisc®, Tricovel®, Multi-Gyn®, Calcia®, IronOne®, Monoderma A-C-E-M™, Allergoff® and Triamcinolone Hexacetonide.

The total consideration payable by Pediapharm for the Medexus Acquisition is CDN\$23 million, which will be satisfied through the issuance of 67,647,059 common shares of Pediapharm (the "**PDP Shares**") at an issue price of CDN\$0.34 per PDP Share.

The Medexus Acquisition will be completed by way of an amalgamation whereby a wholly-owned subsidiary of Pediapharm, incorporated solely for the purposes of the Medexus Acquisition, will amalgamate with Medexus. Upon completion of the Medexus Acquisition, Ken d'Entremont, the Founder, President and Chief Executive Officer of Medexus, will become a director and the Chief Operating Officer of Pediapharm. Mr. d'Entremont and two other former directors of Medexus have agreed not to sell the PDP Shares issued to them pursuant to the Medexus Acquisition for a period of two years following the closing of the Medexus Acquisition, subject to certain exceptions for Mr. d'Entremont tied to his funding needs for bona fide tax obligations, without the prior approval of Pediapharm.

The Medexus Acquisition is subject to customary closing conditions, including, among other things, TSX Venture Exchange ("**TSXV**") approval and the receipt of Medexus shareholder approval of the amalgamation (such approval requiring not less than 66<sup>2/3</sup>% of the votes cast by Medexus shareholders present in person or represented by proxy at the special meeting of Medexus shareholders). Medexus shareholders, that will in the aggregate hold approximately 71.3% of the shares of Medexus entitled to vote at the special meeting of Medexus shareholders that will be convened to approve the amalgamation, have signed customary support and voting agreements under which they have agreed to vote in favour of the amalgamation.

### ***Medac Pharma Acquisition***

Medac Pharma is a privately held specialty pharmaceutical company focusing primarily in the area of rheumatology in the United States through a solid implemented commercial infrastructure. The leading product of Medac Pharma is Rasuvo, an enhanced delivery of methotrexate (auto-pen) to treat rheumatoid arthritis. Medac Pharma is a wholly owned subsidiary of medac GmbH, a well-known global pharmaceutical company located in Germany that has been making scientific and therapeutic discoveries for more than 40 years.

Pursuant to the Medac Pharma Acquisition, all of the shares of Medac Pharma will be acquired by a wholly-owned U.S. subsidiary of Pediapharm, incorporated solely for the purposes of the Medac Pharma Acquisition. The total consideration payable by Pediapharm for the Medac Pharma Acquisition is up to U.S. \$50 million, payable as follows:

- (i) a cash payment of U.S. \$13.1 million (the "**Closing Cash Payment**") due on closing, to be funded by the proceeds of the Offering;

- (ii) such number of units of Pediapharm (the "**Consideration Units**") equal in value to U.S. \$1.9 million, issued at an issue price of CDN\$0.34 per Consideration Unit (the "**Closing Unit Payment**") with each Consideration Unit consisting of one PDP Share and one half of one PDP Share purchase warrant (each such full warrant being exercisable into one PDP Share for a period of five years at an exercise price of CDN\$0.63 per PDP Share). medac GmbH has agreed not to sell the PDP Shares issued or issuable to it under the Medac Pharma Acquisition for a period of two years following the closing of the Medac Pharma Acquisition, without the prior approval of Pediapharm;
- (iii) a contingent cash payment of U.S. \$5 million, payable within six months following the FDA approval of a certain new product to be supplied to Pediapharm by medac GmbH for sale in the United States, or 30 days following the date, provided that such FDA approval has been obtained, that medac GmbH has manufactured and delivered to Pediapharm sufficient quantities of such products to meet the forecasted launch demand for such product in the United States; and
- (iv) annual payments in an amount equal to 7.5% of the aggregate consolidated EBITDA of Pediapharm (the "**Trailer Payments**"), subject to certain agreed-upon adjustments, until such time as an aggregate of U.S. \$30 million in Trailer Payments have been made.

The Closing Cash Payment and the Closing Unit Payment shall be subject to adjustment with respect to the allocation of cash and Consideration Units at closing, all in accordance with the terms of the Medac Pharma Acquisition agreement, but the aggregate closing consideration paid shall be equal to U.S. \$15 million.

Contemporaneously with the completion of the Medac Pharma Acquisition, medac GmbH will enter into a manufacturing and supply agreement (the "**Medac Supply Agreement**") with Pediapharm and Medac Pharma for an initial term of 12 years from the completion of the Medac Pharma Acquisition, which Supply Agreement will provide for the continued supply of products by medac GmbH to Pediapharm for sale in the United States by Pediapharm. In addition, the term of the existing supply agreement between medac GmbH and Medexus will be extended, on its existing financial terms, such that it expires 12 years from the date of the completion of the Medac Pharma Acquisition.

As part of the Medac Pharma Acquisition, during the term of the Medac Supply Agreement, medac GmbH has granted to Pediapharm a right of first refusal with respect to the commercialization in the United States or Canada of certain specified products of medac GmbH that medac GmbH wishes to commercialize for use in the United States or Canada during the term of the Medac Supply Agreement.

The Medac Pharma Acquisition is subject to customary closing conditions, including, among other things, TSXV approval.

Subject to the timely completion of the Offering, and other customary closing conditions, it is expected that the Acquisitions will be completed on or about September 28, 2018.

## THE OFFERING

In connection with the Acquisitions, Pediapharm intends to complete the Offering consisting of a combination of subscription receipts exchangeable for Convertible Debentures ("**Debenture Subscription Receipts**") and subscription receipts exchangeable for Units ("**Unit Subscription Receipts**") and, collectively with the Debenture Subscription Receipts, the "**Subscription Receipts**"). The gross proceeds from the Offering, will be placed in escrow pending the satisfaction of certain escrow release conditions (the "**Escrow Release Conditions**") to be set out in a subscription receipt agreement to be entered into in connection with the Offering (the "**Subscription Receipt Agreement**"), including the completion, satisfaction or waiver of all conditions precedent to the completion of the Acquisitions and the receipt of necessary approvals for the Offering and the Acquisitions. Upon the satisfaction of the Escrow Release Conditions, the net proceeds of the Offering will be used to fund the cash consideration due on closing of the Medac Pharma Acquisition, with the balance of the proceeds to be used for the ongoing operations and strategic initiatives of Pediapharm.

The Debenture Subscription Receipts shall be issued at a price of CDN\$1,000 per Debenture Subscription Receipt. Each Debenture Subscription Receipt shall, following the satisfaction of the Escrow Release Conditions, without payment of additional consideration or further action, automatically be exchanged for one CDN\$1,000 principal amount convertible debenture (a "**Convertible Debenture**"), which Convertible Debenture shall be convertible into units ("**Conversion Units**") at a conversion price of CDN\$0.42 per Conversion Unit. Each Conversion Unit shall be comprised of one PDP Share and one half of one PDP Share purchase warrant (each such full warrant being exercisable into one PDP Share at an exercise price of CDN\$0.63 per PDP Share for a period of five years from the date the Convertible Debentures are issued). The Convertible Debentures will mature on the date that is the fifth anniversary of the date of issuance and shall be repaid in full by Pediapharm with a payment equal to 125% of such outstanding principal amount, with such repayment to be made in cash or, at Pediapharm's option, in PDP Shares. The Convertible Debentures will bear interest at 6.0% per annum beginning on the date the Debenture Subscription Receipts are exchanged for Convertible Debentures, payable semi-annually in cash, or, at Pediapharm's option and subject to the prior approval of the TSXV, in PDP Shares.

The Unit Subscription Receipts shall be issued at a price of CDN\$0.34 per Unit Subscription Receipt. Each Unit Subscription Receipt shall, following the satisfaction of the Escrow Release Conditions, without payment of additional consideration or further action, automatically be exchanged for a unit of Pediapharm (a "**Unit**") comprised of one PDP Share and one half of one PDP Share purchase warrant (each such full warrant being exercisable into one PDP Share at an exercise price of CDN\$0.63 per PDP Share for a period of five years from the date the Units are issued).

Pediapharm has signed an engagement letter with the Agents, under which the Agents have agreed to offer for sale, on a best efforts basis, the Subscription Receipts under the Brokered Offering.

The Non-Brokered Offering is being assisted by Goodwood Inc. ("**Goodwood**") pursuant to the Transaction Agreement (as further described below).

The Subscription Receipts will be distributed by way of private placement in all the provinces of Canada, to investors in the United States pursuant to available exemptions from the registration requirements of

the United States Securities Act of 1933, as amended, and in such certain other jurisdictions as Pediapharm and the Agents may agree. Completion of the Offering is subject to certain customary closing conditions, including approval of the TSXV. Closing of the Offering is expected to occur on or about September 21, 2018.

In connection with the Offering, Pediapharm will pay commissions to the Agents equal to a cash fee of 7.0% for the gross proceeds raised in the Brokered Offering, and will issue PDP Share purchase warrants ("**Broker Warrants**") to the Agents equal to 3.5% of the gross proceeds raised in the Brokered Offering, with each Broker Warrant exercisable for one PDP Share, at an exercise price of CDN\$0.63 per PDP Share, for a period of 36 months following closing. Pediapharm may also pay cash commissions of up to 7% on a portion of the funds raised in respect of the Non-Brokered Offering to one or more registered dealers involved in the Non-Brokered Offering, provided that no commissions will be paid to Goodwood.

### ***The Transaction Agreement***

In connection with Transactions, Pediapharm has entered into a transaction agreement with Goodwood (the "**Transaction Agreement**"). In accordance with the Transaction Agreement, one or more investment funds managed by Goodwood, together with the other purchasers under the Non-Brokered Offering, are expected to purchase approximately CDN\$30 million of Subscription Receipts.

Pediapharm has also agreed that, contemporaneously with the completion of the Transactions, Pediapharm and Goodwood (or an affiliate thereof) will enter into a consulting agreement pursuant to which Goodwood (or an affiliate thereof) will provide strategic advisory services to Pediapharm for four years. Under such consulting agreement, Goodwood will be paid a fee of CDN\$120,000 per annum.

### **PEDIAPHARM BOARD**

Upon completion of the Transactions, the board of directors of Pediapharm (the "**Board**") will be reconstituted to consist of seven directors, comprised of four existing directors (Pierre Lapalme, Sylvain Chretien, Michael Mueller and Benoit Gravel) and three new directors (Ken d'Entremont, Stephen Nelson and Peter van der Velden). Biographies of Messrs. d'Entremont, Nelson and van der Velden are set forth below.

In connection with the Transactions, Pediapharm expects to convene and hold a meeting of Pediapharm's shareholders following the completion of the Transactions to obtain the approval of Pediapharm's shareholders for: (i) a long-term incentive plan of Pediapharm designed to incentivize directors, officers, employees and consultants, and to align their interests with the long-term interests of Pediapharm's shareholders; (ii) the consolidation of the PDP Shares; and (iii) the change of Pediapharm's name. Further details regarding the proposed long-term incentive plan, share consolidation and name change will be included in the meeting materials to be provided to Pediapharm's shareholders in connection with such meeting.

Bloom Burton Securities Inc. advised and assisted Pediapharm's Board in its evaluation of the Transactions.

## **Biographies**

### *Ken d'Entremont*

Ken d'Entremont is the founder, President and Chief Executive Officer of Medexus and is a member of the Medexus board of directors. Mr. d'Entremont is a highly qualified pharmaceutical executive who has over 30 years of pharmaceutical industry experience. During the course of Mr. d'Entremont's career, he has occupied various executive positions of increasing seniority, including VP sales & marketing, VP business development and GM for Sanofi Canada. Mr. d'Entremont has been instrumental in the growth and success of Medexus, which has provided him with extensive experience in running an emerging growth company and driving successful corporate development activities and product launches in the life sciences and healthcare sectors. Mr. d'Entremont holds a B.Sc. Chemistry from McMaster University.

### *Stephen Nelson*

Stephen Nelson is Senior Vice-President, Portfolio Manager and Investment Advisor with TD Wealth Private Investment Advice. Mr. Nelson has been with TD Bank for over 20 years, and works out of TD's flagship office in Toronto, Ontario. Mr. Nelson currently manages over \$2 billion of investment assets. His performance as a portfolio manager and investment advisor has resulted in his designation as a member of TD Waterhouse's President's Club for the past 16 consecutive years. Mr. Nelson has served as a director of a number of private companies and is a noted author of bestselling finance texts. He graduated with a four-year degree in Economics from the University of Western Ontario.

### *Peter van der Velden*

Peter van der Velden is a highly experienced investor and operator with demonstrated success in venture and buyout investing, transaction structuring, strategic planning, corporate restructuring and operational management. His entire career has focused on building innovative, life science, consumer and technology centric companies from start-up through to expansion. Mr. van der Velden is currently the Managing General Partner of Lumira Capital, Canada's largest dedicated life sciences venture capital investor, which seeks to identify, invest in and help to build transformative healthcare companies located in North America. Lumira's successes include multiple billion dollar market capitalization companies including: Pharmasset (acquired by Gilead), Mako Surgical (acquired by Stryker) and G1 Therapeutics (NASDAQ:GTHX). In addition to a number of investee company board roles, he is currently a board member for the World Health Innovation Network, a committee member for Ontario's Scale Up Voucher program, and on the Commercialization Advisory Board for Sick Kids Hospital and he was a member of the Government of Ontario's, Ontario Health Innovation Council whose mission was to enhance the adoption of Ontario based innovation by the Ontario health care system. He is also a past President, Chairman and Director of the Canadian Venture and Private Equity Association where, in addition to leading the restructuring and repositioning of the organization, he worked closely with the Federal government on its Venture Capital Action Plan. Previously, Mr. van der Velden was the founder of a boutique merchant bank focused on private technology companies, head of investment banking for a boutique investment bank focused on public technology companies, a partner in a buyout partnership targeting retail and consumer-centric businesses, vice president of business development for a venture capital-backed drug delivery company, and an associate at Canada's then-largest venture capital firm.

Mr. van der Velden holds degrees from the Schulich School of Business (MBA finance and policy) and Queen's University (M.Sc. (pathology), B.Sc. (honours life sciences)).

### **About Pediapharm**

Pediapharm is the only Canadian specialty pharmaceutical company dedicated to serving the needs of the pediatric community. Its mission is to bring to the Canadian market the latest innovative pediatric products with the objective to improve the health and the well-being of children in Canada. Since its debut in 2008, Pediapharm has entered into numerous commercial agreements with partners from Canada and other countries around the world. Pediapharm's innovative product portfolio includes NYDA<sup>®</sup>, a breakthrough treatment for head lice; Relaxa<sup>™</sup>, an osmotic laxative used to treat constipation; EpiCeram<sup>®</sup>, a non-steroid emulsion for eczema; naproxen suspension, indicated to treat pain and inflammation due to various conditions, including Juvenile Idiopathic Arthritis; Rupall<sup>™</sup>, an innovative new allergy medication with a unique mode of action; Otixal<sup>™</sup>, the first and only antibiotic and steroid combination ear drop available in single, sterile, preservative-free and unit-dose packaging; and Cuvposa<sup>™</sup>, for chronic severe drooling, a condition affecting a significant proportion of cerebral palsy patients.

*This press release is not an offer of the securities for sale in the United States. The securities may not be offered or sold in the United States absent registration or an exemption from registration. The securities will not be publicly offered in the United States. The securities have not been and will not be registered under the U.S. Securities Act, or any state securities laws.*

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### **READER ADVISORIES**

#### **Forward Looking Statements**

This press release contains "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information includes, but is not limited to, statements with respect to Pediapharm's future business operation, expectations of gross sales, the opinions or beliefs of management and future business goals, statements regarding the timing and completion of the proposed Acquisitions and the

Offering, the use of the net proceeds of the Offering, the satisfaction of the Escrow Release Condition, the value of the consideration to be received by Medexus shareholders in connection with the Medexus Acquisition, which may fluctuate in value due to the consideration consisting of PDP Shares, the ability of the parties to satisfy, in a timely manner, the conditions to closing of the Offering and the Acquisitions, and management's expectations with respect to the Offering and the Acquisitions. All statements, other than of historical fact, that address activities, events or developments that Pediapharm believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding potential acquisitions and financings) are forward-looking statements. Forward-looking statements are generally identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond Pediapharm's ability to control or predict, that may cause the actual results of Pediapharm to differ materially from those discussed in the forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among other things, without limitation, failure of the parties to satisfy the conditions necessary to complete the Transactions, failure to realize the expected benefits of the Acquisitions, the risk that the operations of Pediapharm, Medac Pharma and Medexus will not be integrated successfully, the failure to obtain sufficient financing to execute Pediapharm's business plan; the success of the Rasuvo product offering and pre-filled syringe; guidance on expected sales volumes associated with the Rasuvo product offering and inhalation device; competition; regulation and anticipated and unanticipated costs and delays, and other risks disclosed in Pediapharm's public disclosure record on file with the relevant securities regulatory authorities. Although Pediapharm believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Pediapharm can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. Pediapharm's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that Pediapharm will derive therefrom. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide securityholders with a more complete perspective on Pediapharm's future operations and such information may not be appropriate for other purposes. Readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect Pediapharm's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). The forward-looking statements included in this news release are made as of the date of this news release and Pediapharm does not undertake an obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless required by applicable securities legislation.

The Medexus management prepared audited financial statement for the year ended December 31, 2017 and the management prepared unaudited financial statements for the three-month period ended June 30, 2018, were prepared in accordance with Canadian accounting standards for private enterprises.

The Medac Pharma management prepared audited financial statements for the year ended March 31, 2017 were prepared in accordance with US GAAP.