Pediapharm Announces Q2 Results – Record Adjusted EBITDA, Record Revenue and 13th Consecutive Year-Over-Year Quarterly Revenue Growth

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MONTREAL, Nov. 27, 2018 -- Pediapharm Inc. (the “Company” or "Pediapharm") (TSXV: PDP, OTCQB: PDDPF) is pleased to file its second quarter financial results ended September 30, 2018. All dollar amounts are expressed in Canadian currency and results are reported in accordance with IFRS accounting principles.

KEY HIGHLIGHTS FOR THE PERIOD ENDED SEPTEMBER 30, 2018

The following highlights do not include the impact of events subsequent to the end of the quarter, including the acquisitions of Medexus Inc and Medac Pharma and the related $62 million (gross) financing completed in parallel with the closing of these acquisitions.

In the three-month period ended September 30, 2018, the Company achieved **record** quarterly revenue of $3,449,203 (three-month period ended September 30, 2017 - $3,083,397), representing an increase of 12%. Highlights for this quarter include:

- Adjusted EBITDA of $473,103 vs $87,578 in the same period last year, representing an improvement of $385,525
- Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $1,144,643 (+89%) which exceeded Management’s estimate.
- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 1%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa’s net revenue
- Improvement of $660,907 in cash flow used in operations

In the six-month period ended September 30, 2018, the Company achieved revenue of $6,698,342 (six-month period ended September 30, 2017 - $5,548,945), representing an increase of 21%. Highlights for this period include:

- Adjusted EBITDA of $179,586 vs ($609,519) in the same period last year, representing an improvement of $789,105
- Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $2,865,287 (+124%) which exceeded Management’s estimate.
- Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 3%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa’s net revenue
- Improvement of $2,402,075 in cash flow used in operations

“We are very pleased with the progress made by the Company during the most recent record quarter” stated Pierre Lapalme, Chairman of the Board of Pediapharm. “In addition to our legacy business growing materially in terms of revenues and EBITDA, we were able to lay the foundation during the quarter for a number of transformative events. Subsequent to the close of the quarter we completed the acquisition to two high growth and profitable businesses. These acquisitions have resulted in the Company being repositioned as a leading North American specialty pharma company with meaningful business franchises in rheumatology, autoimmune disease and pediatrics. In addition, we completed a $62 million financing that not only allowed us to complete those acquisitions, but that has also has given us a significant war chest with which to continue to build and execute on our rapidly growing pipeline of new business development opportunities. These are very exciting times for the Company, and in the coming quarters we look forward to being able share with all our stakeholders the full revenue and EBITDA impact of the Company’s new positioning and strategy.”

FUTURE OUTLOOK

Subsequent to the close of the quarter, on October 16, 2018, Pediapharm completed a transformative transaction whereby it amalgamated with a Canadian specialty pharma company, Medexus Inc. and acquired a USA based specialty pharma company, medac Pharma, Inc. In connection with these transactions, Pediapharm raised $62 Million (gross) through the offering of subscription receipts exchangeable into convertible debentures or units of Pediapharm, which were automatically exchanged on closing of the acquisitions. The proceeds raised through this offering were used to partially finance the acquisition of medac Pharma, Inc. and provide a strong financial position for future growth opportunities. Pediapharm is now a North American specialty pharma company with a solid portfolio of products in rheumatology plus its traditional pediatric business in Canada. From this much larger base, the Company will seek business development opportunities which leverage its commercial infrastructure in both the USA and Canada. These business development efforts will be supported by a strong balance sheet with over $30 million in cash, directly following the transactions.

The combination of these three entities creates an Adjusted EBITDA positive Company with strong potential for organic growth. Prior to the transactions, each entity (including Pediapharm) was generating double digit revenue growth and was either generating positive Adjusted EBITDA or was on the verge of generating positive Adjusted EBITDA. Together, this new

Company has increased scale, a strong balance sheet and is expected to be cash flow positive. Management believes additional business development activities will further leverage the existing commercial infrastructure and improve the financial results.

The Company has decided it will further enhance its business development efforts with additional resources to find opportunities that help build scale in the short to medium term. The Company is determined to accelerate its organic growth with product licensing and/or product and company acquisitions. As part of the medac Pharma, Inc. acquisition, the Company has a first right of refusal on current products in the medac GmbH portfolio (previous owner of Medac Pharma, Inc. with whom Pediapharm has a long-term distribution agreement). The Company believes that several of these products represent a commercial opportunity in North America and is in the process of assessing the licensing of these drugs. The Company is also in discussion with several partners regarding other licensing agreements and believes that those products have the potential to make a material contribution within the next few years.

The new Pediapharm is committed to serving the targeted specialty areas of rheumatology and pediatrics with a deep portfolio of products for those therapeutic areas. We seek to offer cost effective drugs that enhance patients' quality of life.

The USA rheumatology business, medac Pharma, Inc. is experiencing strong, double digit, revenue growth from its lead product Rasuvo. Rasuvo is a once-weekly, subcutaneous, single-dose auto-injector of methotrexate indicated for the treatment of rheumatoid arthritis, psoriasis and juvenile idiopathic arthritis (JIA). It has excellent payor, prescriber and patient acceptance which has resulted in a leading share of the methotrexate auto-injector market. Management expects this growth to continue as prescribers adopt the most convenient form of methotrexate for their patients.

The Company has recently launched three new products in the pediatric business, Rupall™, Otixal™ and Cuvposa™. Each is in the early stage of launch and performing at or above management's expectations. Rupall™, launched in January 2017, is generating strong prescription growth year over year and is expected to be a leading prescription anti-histamine in a total market valued at $131.4 million, including $42.6 million from the Rx market which is growing at annual rate of 17% (IMS Data-MAT June 2018). Although Pediapharm currently focuses its commercial efforts on the Rx market, it is benefiting from the OTC market due to patients being switched from OTC antihistamines to Rupall by their physicians. Otixal™ a prescription product indicated for the treatment of acute otitis media with tympanostomy tubes (AOMT) in pediatric patients (age 6 months and older) was launched in May 2017. The Company estimates an annual peak sales potential of $4 million. Recently, in April 2018, the Company commercially launched, using its current infrastructure, Cuvposa™ (Glycopyrrolate oral solution 1 mg/ 5 mL) which is indicated for sialorrhea in patients aged 3-18 years with neurologic conditions such as cerebral palsy (CP). The receptivity of Cuvposa from the medical community and the patients is very positive as the product brings key clinical attributes when compared to currently available products and other invasive medical interventions. The Company believes there is an opportunity to gain additional market access through public reimbursements and is currently evaluating that strategy.

Within the Canadian rheumatology business, the Company is experiencing dramatic revenue growth due to public reimbursement of one of its core products, Metoject. Metoject, a pre-filled syringe of methotrexate, is indicated for the treatment of rheumatoid arthritis and psoriasis. It is a highly effective and cost-efficient treatment for these debilitating diseases. Public reimbursement creates access for a large group of patients who previously could not afford the product.

In October of this year, the Company launched Triamcinolone Hexacetinide (TH), a leading treatment for JIA. TH had been the subject of a long-standing drug shortage and was made available, by the Company, to children with JIA through the Special Access Program (SAP) of Health Canada. With the commercial launch of TH, children with JIA now have a reliable source for a product which is a key component for the management of their disease.

In summary, the Company is growing strongly and has a solid cash position from which to execute its business plan, including the launch of several new products. 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 and future fiscal years.

OPERATING RESULTS ANALYSIS

	September 30, 2018 (3 months) $	**September 30, 2017 (3 months) $**	**September 30, 2018 (6 months) $**	**September 30, 2017 (6 months) $**
Revenue from Products	3,449,203	3,083,397	6,698,342	5,546,240
Revenue from Commissions	-	-	-	2,705
TOTAL Revenue	3,449,203	3,083,397	6,698,342	5,548,945
Gross Profit	1,855,321	1,715,228	3,593,321	3,002,278
Selling and administrative expenses	1,502,818	1,783,377	3,652,037	3,917,893
Transaction and financing expenses	3,670,905	-	3,670,905	-
Operating loss	(3,314,121)	(52,177)	(3,736,267)	(889,939)
Net loss	(3,616,440)	(336,631)	(4,308,530)	(1,454,560)
Cash flow used in operating activities	(191,888)	(852,795)	(525,414)	(2,927,489)
Cash flow used in investing activities	(332,863)	(864)	(340,243)	(299,132)
Cash flow from financing activities	59,325	(26,275)	59,325	4,956,967

FINANCIAL INFORMATION COMPARISON

REVENUE

For the three months ended September 30, 2018, total revenue reached $3,449,203 compared with revenue of $3,083,397 in the three months ended September 30, 2017, representing a 12% increase. Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $1,144,643 (+89%) which exceeded Management's estimate. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 1%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue

For the six months ended September 30, 2018, total revenue reached $6,698,342 compared with revenue of $5,548,945 in the six months ended September 30, 2017, representing a 21% increase. Revenue from recently launched brands, Rupall™, Otixal™ and Cuvposa™, respectively launched in January 2017, May 2017 and April 2018, of $2,865,287 (+24%) which exceeded Management's estimate. Revenue from Established brands (NYDA®, Relaxa™, Naproxen Suspension) decreased by 3%. This is partly due to a reduction of 11.5% in the overall units of headlice treatments in Canada (IMS Data- MAT September 30, 2018) as well as the recently implemented regulation from the province of Quebec that reduced Relaxa's net revenue

GROSS PROFIT AND MARGIN

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 September 30, 2018, gross profit reached $1,855,321, representing an increase of 8% (three months ended September 30, 2017 - $1,715,228). Gross margin as a percentage of revenue was 54% (three months ended September 30, 2017 – 56%). For the six months ended September 30, 2018, gross profit reached $3,593,321, representing an increase of 20% (six months ended September 30, 2017 - $3,002,278). Gross margin as a percentage of revenue was 54% (six months ended September 30, 2017 – 54%).

The accelerated growth of newly launched products had a positive impact on gross margin as a percentage of revenue. However, this was offset by lower gross margins for Relaxa™ which is due to the nature of its product category as well as the aforementioned recently implemented regulation from the province of Quebec. Over time, with the estimated revenue growth from high gross margins products such as NYDA®, Rupall™, Otixal™ and Cuvposa, Management estimates that, based on Pediapharm's current product portfolio, total gross margins as a percentage of revenue will continue to improve and ultimately reach 60-65%.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended September 30, 2018, selling and administrative expenses reached $1,502,818 (three months ended September 30, 2017 - $1,783,377). For the six months ended September 30, 2018, selling and administrative expenses reached $3,652,037 (six months ended September 30, 2017 - $3,917,893).

This reflects the Company's commitment to keep investing in new product launches while having a minimal impact on operating expenses. Management believes these investments in Rupall™, Otixal™ and Cuvposa™ are key to the overall success of the Company.

OPERATING PROFIT OR LOSS

The operating loss for the three months ended September 30, 2018 was $3,314,121 compared to $52,177. in the three months ended September 30, 2017. While there were significant increases in both revenue and gross profit during that period, the main reason for the difference in operating loss is the $3,670,905 in fees and expenses associated with the aforementioned transaction and financing. There was an improvement of over $400,000 when adjusting for the one-time transaction and financing fees.

The operating loss for the six months ended September 30, 2018 was $3,736,267 compared to $889,939 in the six months ended September 30, 2017. While there were significant increases in both revenue and gross profit during that period, the main reason for the difference in operating loss is the $3,670,905 in fees and expenses associated with the aforementioned transaction and financing. There was an improvement of over $820,000 when adjusting for the one-time transaction and financing fees.

ADJUSTED EBITDA

Adjusted EBITDA, defined below, for the three-month period ended September 30, 2018 was $473,103 compared to $87,578 for the three-month period ended September 30, 2017. Adjusted EBITDA for the six-month period ended September 30, 2018 was $179,586 compared to ($609,519) for the six-month period ended September 30, 2017. The improvement is mainly due to the increase gross profit driven by the overall increase in revenue.

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, impairment of intangible assets as well as fees related to the transactions and financing announced on October 16, 2018. 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.

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®, a breakthrough treatment for head lice; Relaxa™, an osmotic laxative used to treat constipation; EpiCeram®, a non-steroid emulsion for eczema; naproxen suspension, indicated to treat pain and inflammation due to various conditions, including Juvenile Idiopathic Arthritis; Rupall™, an innovative new allergy medication with a unique mode of action; Otixal™, the first and only antibiotic and steroid combination ear drop available in single, sterile, preservative-free and unit-dose packaging; and Cuvposa™, for chronic severe drooling, a condition affecting a significant proportion of cerebral palsy patients.

Medexus, a direct subsidiary of Pediapharm, 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.

Medac Pharma, an indirect subsidiary of Pediapharm, is a 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.

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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 receipt of regulatory approvals and management's expectations with respect to the future performance of the business of Medexus and Medac Pharma, respectively, acquired as a result of 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 obtain regulatory approvals, 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; 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). 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.