2019
SECOND QUARTER REPORT

cipher™
PHARMACEUTICALS

Letter to Shareholders

Dear Shareholder:

Second quarter results continued to show early evidence of our commitment to increasing profitability. Total operating expenses decreased 15% and, through our ability to generate cash from operations and the efficient management of operating expenses, we continued our responsible debt retirement practices with the repayment of $2.0 million dollars of debt.

In Canada, Epuris, our largest product used for the treatment of severe acne, continued to perform well, generating $1.9 million in revenue in Q2 2019 compared to $1.5 million in Q2 2018. Epuris had a prescription market share of over 38% in Canada for the three months ended June 30, 2019 compared to 33% for the three months ended June 30, 2018.

Absorica prescriptions have shown some signs of stabilization and licensing revenue for Absorica is up modestly from levels seen in Q1 2019. In Q2, Absorica generated $2.9 million in licensing revenue which was up from $2.7 million in Q1 2019. We continue to look for new geographic markets for Absorica to enhance this franchise.

Subsequent to Q2, the Board of Directors appointed a Special Committee to review and evaluate the strategic direction of the Company and consider various alternatives to maximize shareholder value. Together, the Special Committee and management established several new strategic priorities. Most significantly, the Company plans to target strategic distribution partnerships for the Canadian commercial assets.

This new direction will see the Company return to its roots as a cost conscious financially prudent operator focused on building a portfolio of royalties in novel therapies. Cipher has historically had success bringing late-stage assets through the regulatory approval process and commercializing them with the right partners, and we intend to focus on this model going forward. Partnering our Canadian commercial assets will help improve profitability and cash flow and right size the cost structure of the organization ensuring a self-funding business model.

Cipher has assembled an attractive portfolio of assets beyond the currently marketed products, and we are committed to moving our current pipeline products through the regulatory approval process. We will partner these assets once they receive regulatory approvals.

We will carefully select partners that possess the expertise and scale to ensure the continued success of our products. Commercial investments will be assumed by our partners and Cipher intends to collect upfront payments and royalty streams. The impact of these changes should help build up a cash balance which we intend to use to pay down debt and to target late-stage development programs that we can add to the pipeline.

In addition, Cipher will continue to work with our technology partner, Galephar, to bring new exciting products to the market with a focus on U.S. and international markets.

These are exciting times for Cipher and we look forward to reporting on our progress through the balance of 2019.

Sincerely,

"Signed"

Craig Mull
Interim Chief Executive Officer

August 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

The following is a discussion and analysis of the operating results and financial position of Cipher Pharmaceuticals Inc. and its subsidiaries ("Cipher" or "the Company") for the three and six months ended June 30, 2019. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements of Cipher for the three and six months ended June 30, 2018 and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. Additional information about the Company, including the Audited Annual Financial Statements and Annual Information Form for the year ended December 31, 2018, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ("MD&A") are as at August 8, 2019. All dollar figures are stated in U.S. dollars unless otherwise indicated.

Caution Regarding Forward-Looking Statements

This document includes forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to our objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions and statements relating to the Special Committee's review of the strategic direction of the Company and its strategic priorities including the anticipated benefits thereof. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, our ability to enter into development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on a limited number of products; our dependency on protection from patents that will expire; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of certain products; the product approval process is highly unpredictable; the timing of completion of clinical trials, regulatory submissions and regulatory approvals; reliance on third parties to manufacture our products and events outside of our control that could adversely impact the ability of our manufacturing partners to supply products to meet our demands; we may be subject to future product liability claims; unexpected product safety or efficacy concerns may arise; we generate license revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; products in Canada may be subject to pricing regulation; dependence on key managerial personnel and external collaborators; no assurance that we will receive regulatory approvals in the U.S., Canada or any other jurisdictions and current uncertainty surrounding health care regulation in the U.S.; certain of our products are subject to regulation as controlled substances; limitations on reimbursement in the healthcare industry; limited reimbursement for products by government authorities and third-party payor policies; products may not be included on list of drugs approved for use in hospitals; hospital customers may make late payments or not make any payments; various laws pertaining to health care fraud and abuse; reliance on the success of strategic investments and partnerships; the publication of negative results of clinical trials; unpredictable development goals and projected time frames; rising insurance costs; ability to enforce covenants not to compete; risks associated with the industry in which it operates; we may be unsuccessful in evaluating material risks involved in completed and future acquisitions; we may be unable to identify, acquire or integrate acquisition targets successfully; legacy risks from operations conducted in the U.S.; inability to meet covenants under our long term debt arrangement; compliance with privacy and security regulation; our policies regarding returns, allowances and chargebacks may reduce revenues; certain current and future regulations could restrict our activities; additional regulatory burden and controls over financial reporting; reliance on third parties to perform certain services; general commercial litigation, class actions, other litigation claims and regulatory actions; the difficulty for shareholders to realize in the United States upon judgments of U.S. courts predicated upon civil liability of the Company and its directors and officers who are not residents of the United States; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent laws; litigation in the pharmaceutical industry concerning the manufacture and supply of novel and generic versions of existing drugs; inability to protect our trademarks from infringement; shareholders may be further

diluted if we issue securities to raise capital; volatility of our share price; the actions of a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; and our debt obligations will have priority over the common shares of the Company in the event of a liquidation, dissolution or winding up.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the "Risk Factors" section of this MD&A and the Annual Information Form for the year ended December 31, 2018, and elsewhere in our filings with Canadian securities regulators. Except as required by Canadian securities law, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

Market Industry Data

The market and industry data contained in this MD&A is based upon information from independent industry and other publications and our knowledge of, and experience in, the industry in which the Company operates. Market and industry data are subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data at any particular point in time, the voluntary nature of the data gathering process or other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data are not guaranteed. Cipher has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources**.**

Overview

Cipher (TSX: CPH) is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late development stage products. Cipher acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets these products directly in Canada or indirectly through partners in the U.S., Canada and Latin America.

Corporate Strategy

Cipher's corporate strategy is to build a portfolio of prescription products across a broad range of therapeutic areas that meet an unmet medical need. The focus of the Company's current strategy is to:

- strategically market and distribute its Canadian commercial assets indirectly, by way of partnerships;
- out-license products in markets where Cipher does not have a commercial presence; and
- selectively invest in drug development programs where we see a favourable risk/return profile.

Significant Transactions

2019

CREDIT FACILITY AMENDMENT

On March 31, 2019, the Company entered into a second amendment to its credit agreement with its Canadian lender. The amendment adjusts certain financial covenants for the remainder of the credit facility term.

2018

TRULANCE® ACQUISITION

On February 27, 2018, the Company acquired the exclusive Canadian rights to develop, market, distribute and sell TRULANCE (plecanatide) from Synergy Pharmaceuticals Inc. ("Synergy"). TRULANCE is a once-daily tablet approved by the U.S. Food and Drug Administration ("FDA") for the treatment of adults with chronic idiopathic constipation ("CIC") and irritable bowel syndrome with constipation ("IBS-C"). The Company filed a New Drug Submission ("NDS") with Health Canada in the fourth quarter of 2018, which was accepted by Health Canada for review. Under the terms of the licensing agreement, the Company made an upfront payment of $5.0 million. The transaction also includes a regulatory milestone payment of $0.8 million and royalties on net product sales in Canada.

The total Canadian laxative and antispasmodic market size (prescription and over-the-counter) is estimated at over CDN$200.0 million in 2018, of which the prescription market size is estimated at CDN$19.0 million, according to IQVIA (“IQVIA”) formerly IMS Health/IMS Quintiles.

A-101 ACQUISITION

On April 5, 2018, the Company acquired the exclusive Canadian rights to distribute and commercialize A-101 from Aclaris Therapeutics, Inc. (“Aclaris”). A-101 is an FDA-approved topical product indicated for the treatment of raised seborrheic keratoses (“SK”), which are commonly occurring non-cancerous skin growths that affect more than nine million Canadian adults and can be an aesthetic skin concern. A-101 was approved by the FDA in December 2017 and is marketed by Aclaris in the U.S. under the tradename Eskata™. A-101 is a proprietary, high-concentration hydrogen peroxide-based topical solution designed for in-office application by a healthcare provider and is a targeted treatment applied directly to the raised SK using a pen-like applicator. The most common treatment for SK is surgical procedures such as cryosurgery, which can cause discomfort, cosmetic imperfections, and require wound management. Under the terms of the licensing agreement, the Company made an upfront payment of $1.0 million, is required to make payments of up to $2.8 million upon the achievement of certain regulatory and commercial milestones and make royalty payments based on net product sales in Canada. The Company filed an NDS with Health Canada in the fourth quarter of 2018, which was accepted by Health Canada for review. The Company made a $0.5 million milestone payment upon Health Canada acceptance for review in the first quarter of 2019.

CARDIOME TRANSACTION AND CREDIT FACILITY AMENDMENT

On May 15, 2018, the Company completed its acquisition of the Canadian business portfolio of Cardiome following a restructuring of Cardiome pursuant to a statutory plan of arrangement under the Canada Business Corporations Act. Pursuant to the arrangement, former Cardiome shareholders received common shares, on a one-for-one basis, of a newly created Canadian entity named Correvio Pharma Corp. (“Correvio”). The Company subsequently acquired from Correvio all the outstanding common shares of Cardiome, which held only the Canadian business portfolio, for cash consideration of CDN$25.5 million. The total transaction costs incurred for the acquisition were CDN$0.8 million. The Company financed this acquisition with a combination of cash and an amendment to its current credit facility to draw an additional $5.0 million. Other than an increase in the Company’s quarterly principal repayment amounts over the remainder of the term from $1.7 million to $2.0 million, there were no material changes to the terms of the credit facility.

The Canadian business portfolio acquired by Cipher included commercial and pipeline hospital products administered in the acute care setting, including:

- Brinavess® (vernakalant IV), for the rapid conversion of recent onset atrial fibrillation to sinus rhythm;
- Aggrastat® (tirofiban hydrochloride), for the reduction of thrombotic cardiovascular events in patients with acute coronary syndrome;
- Xydalba™ (dalbavancin hydrochloride), the first and only 30-minute, one-dose treatment option for the treatment of acute bacterial skin and skin structure infections; and
- Trevyent® a drug device combination that delivers treprostinil, the world's leading treatment for pulmonary arterial hypertension.

Brinavess and Aggrastat are currently on the market in Canada. Xydalba, which is approved and marketed by Allergan in the U.S. under the trade name Dalvance, received Health Canada approval in the third quarter of 2018 and the Company plans on launching the product in 2019.

MOB-015

On September 18, 2018, the Company entered into an exclusive license agreement with Moberg Pharma AB (“Moberg”) to commercialize and distribute MOB-015. Moberg is currently running the phase III trial that is required for the regulatory submission to Health Canada. MOB-015 is a patented proprietary formulation of terbinafine for the topical treatment of onychomycosis. Onychomycosis is a fungal nail infection with an estimated prescription market of CDN$58.0 million according to IQVIA. Under the terms of the agreement, the Company made an upfront payment of $0.5 million. Additional payments of up to $14.1 million are required upon successful achievement of certain development and regulatory milestones and upon reaching certain annual net sales in Canada. Moberg will supply finished product to the Company.

Significant Partnerships

GALEPHAR

In 2002, the Company entered into a master licensing and clinical supply agreement (the “Galephar Agreement") with Galephar, Pharmaceutical Research, Inc. (“Galephar”), a Puerto Rico based pharmaceutical research and manufacturing company. Under the Galephar Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER in various territories. In particular, the Company has the rights to sell, market and distribute, on a perpetual basis, as follows:

- exclusive rights throughout the world for Galephar’s capsule formulation of Tramadol;
- exclusive rights in North, South and Central America, the Caribbean and Bermuda for Galephar’s capsule formulation of Isotretinoin and non-exclusive rights in certain other countries; and
- exclusive rights in North, South and Central America, the Caribbean and Bermuda for Galephar’s capsule formulation of Fenofibrate and non-exclusive rights in certain other countries.

Cipher is obliged to pay Galephar fifty percent (50%) of any (i) distribution fees it receives, (ii) net sales revenue less manufacturing costs and (iii) royalties received, except that prior to issuance of a patent for a product, only 30% of royalties are payable. If Cipher or its affiliates are directly selling to wholesalers, 12% of net sales received by Cipher is payable to Galephar, or 7% prior to issuance of a patent. No payments are required with respect to a sale of a product occurring 20 years after the first sale of the product in the country or, if a patent is obtained, when the patents lapse in that country for the product, whichever is later. Galephar also supplies product to Cipher through commercial supply agreements for each product.

Certain of the Company’s marketed products utilize drug delivery technologies licensed from Galephar:

- *Oral Lidose® Technology*. Galephar’s oral semi-liquid capsule drug delivery technology is a patent-protected drug delivery system. Active ingredients are incorporated in semi-solid or liquid compositions contained in capsules. This delivery system facilitates low manufacturing costs, while delivering super-bioavailability for relatively water-insoluble compounds. CIP-FENOFIBRATE and CIP-ISOTRETINOIN are based on the Lidose drug delivery system.

- *Oral Controlled-Released Bead Technology*. Galephar’s multiple particle-controlled release capsule technology (“MPCRC”), is based on unique extrusion and spheronization methods, and produces beads containing up to 80% active ingredient. Each coated bead is a controlled release system in itself, and the multi-particulate system provides smooth consistent plasma levels over an extended period of time. The system is virtually pH-independent enabling the product to be taken with or without food. MPCRC enables CIP-TRAMADOL ER.

On May 11, 2017, the founder, vice president and a shareholder of Galephar was elected to the Company’s board of directors as a non-independent member. As a result, Galephar is considered a related party.

Commercial Products

EPURIS® (CIP-ISOTRETINOIN)

CIP-ISOTRETINOIN is an innovative formulation of the active ingredient isotretinoin, which is used in the treatment of severe acne. CIP-ISOTRETINOIN, which is based on the oral Lidose® technology, has been in-licensed from Galephar. CIP-ISOTRETINOIN provides more consistent absorption under fed and fasted conditions, as compared to existing isotretinoin products. Due to its high lipophilicity, oral absorption of isotretinoin is enhanced when given with a high-fat meal. CIP-ISOTRETINOIN is bioequivalent to Accutane (isotretinoin) capsules when both drugs are taken with a high-fat meal. However, when both drugs are taken under fasted conditions, CIP-ISOTRETINOIN provides 83% greater absorption than Accutane (isotretinoin) capsules.

CIP-ISOTRETINOIN was approved by Health Canada in 2012 under the trade name Epuris and Cipher launched the product in Canada in June 2013. The Company purchases Epuris from Galephar and pays a single-digit royalty to Galephar on net sales of Epuris in Canada. According to IQVIA, the Canadian market for oral isotretinoin was CDN$28.5 million for the 12 months ended June 30, 2019 compared to CDN$25.9 million for the same period in 2018.

OZENOXACIN

In 2015, Cipher in-licensed the Canadian rights to OZANEX™ (ozenoxacin 1%), a topical treatment for adult and paediatric patients with impetigo, from Ferrer International SA (“Ferrer”), a privately-held Spanish pharmaceutical company. Under the terms of the

agreement, Ferrer received an upfront payment and is eligible for development milestones and royalties from net product sales in Canada. Ferrer supplies finished product to Cipher.

On May 2, 2017, Cipher received a Notice of Compliance from Health Canada, approving the sale of OZANEX. The Company paid a CDN$0.2 million milestone to Ferrer upon obtaining regulatory approval in Canada. The term of the agreement is for 12 years, which commenced in January 2018 with an automatic renewal for an additional two year period. Under this agreement, all milestones have been paid. Cipher is not responsible for any future development costs, should any be required.

In January 2018, the Company launched OZANEX in Canada. The total Canadian impetigo market size in sales in 2018 was estimated to be CDN$33.0 million, according to IQVIA.

ACTIKERALL®

Actikerall (0.5% fluorouracil and 10% salicylic acid) is indicated for the topical treatment of slightly palpable and/or moderately thick hyperkeratotic actinic keratosis (Grade I/II) of the face, forehead, and balding scalp in immunocompetent adult patients. Actinic keratosis, also known as solar keratosis, is a skin condition caused by exposure to ultraviolet radiation. Cipher acquired the Canadian rights to Actikerall from Almirall S.A. ("Almirall") in May 2015 and the product was launched in Canada in February 2016. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of ten years, which commenced in April 2015 with automatic annual renewals. As at June 30, 2019, Actikerall captured approximately 12% of the actinic keratosis prescriptions market.

VANIQA®

Vaniqa is a prescription cream clinically proven to reduce the growth of unwanted facial hair in women. Vaniqa cream is an enzyme inhibitor and works by blocking an enzyme necessary for hair to grow. The product was approved by Health Canada in May 2001. Cipher acquired the Canadian rights to Vaniqa from Almirall in May 2015. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of ten years, which commenced in March 2015 with automatic annual renewals. The Company launched Vaniqa in the Canadian market in June 2015. Vaniqa prescriptions have been stable year over year, according to IQVIA.

BETEFLAM® PATCH

In 2012, Cipher obtained the exclusive license and distribution rights in Canada to market the Beteflam Patch (previously named the Betesil Patch), a novel, patent-protected, self-adhesive medicated plaster for the treatment of inflammatory skin conditions such as plaque psoriasis, from Institut Biochemique SA ("IBSA").

On March 1, 2019, the Company and IBSA mutually agreed to terminate this agreement at no cost. The Company has the right to sell its remaining inventory of products that were supplied by IBSA.

BRINAVESS®

Brinavess was approved by Health Canada in March 2017 for the rapid conversion of recent onset atrial fibrillation ("AF") to sinus rhythm in adults, for non-surgery patients with AF of seven days or less and for use in post-cardiac surgery patients with AF of three days or less. The approval from Health Canada included a requirement that Cardiome conduct a post marketing study, which the Company will now satisfy. The proposed study design is a retrospective observational registry conducted in patients receiving Brinavess in Canada. The study will characterize prescription practices and the profile of patients receiving Brinavess and will assess the safety of Brinavess in the Canadian real-world setting.

The Company acquired the exclusive Canadian rights to Brinavess as part of the acquisition of the Canadian business portfolio of Cardiome and re-launched Brinavess in October 2018. Correvio supplies finished product to the Company.

AGGRASTAT®

Aggrastat contains tirofiban hydrochloride, which is a reversible GP IIb/IIIa inhibitor (an intravenous anti-platelet drug) for use in patients with Acute Coronary Syndrome. Aggrastat is used to help assist the blood flow to the heart and to prevent chest pain and/or heart attacks (both ST-segment elevation myocardial infarction ("STEMI"), and non-ST-elevation acute myocardial infarction ("NSTE-ACS")). It works by preventing platelets, cells found in the blood, from forming into blood clots within the coronary arteries and obstructing blood flow to the heart muscle (myocardium) which can result in a heart attack. The medicine may also be used in patients whose heart vessels are dilated with a balloon (percutaneous coronary intervention), a procedure used to open up three blocked or obstructed arteries in the heart in order to improve the blood flow to the heart muscle with or without the placement of a coronary stent. Aggrastat

is administered intravenously and has been on the market for many years. In July 2017, Health Canada approved a high dose bolus regimen for Aggrastat.

The Company acquired the exclusive Canadian rights to Aggrastat as part of the acquisition of the Canadian business portfolio of Cardiome. Correvio supplies finished product to the Company.

Licensed Products

CIP-ISOTRETINOIN

United States - Absorica®

In 2012, Cipher's U.S. distribution partner Sun Pharmaceutical Industries, Inc. ("Sun") (previously Ranbaxy Laboratories Inc.) launched CIP-ISOTRETINOIN under the trade name Absorica. According to IQVIA, the U.S. isotretinoin prescription market increased by 10% in the first quarter of 2019 compared to the first quarter of 2018.

Absorica is currently protected by five issued patents which are Orange Book listed and expire in September 2021. Galephar was issued a product patent (Patent Number 7,435,427) from the U.S. Patent and Trademark Office in 2008 with a second patent (Patent Number 8,367,102) issued in 2013. A third patent (Patent Number 8,952,064) was issued in February 2015 and the fourth and fifth patents (Patent Numbers 9,078,925 and 9,089,534, respectively) were issued in July 2015. The five patents are formulation-related patents describing the product ingredients.

In September 2013, Sun received a Paragraph IV Certification Notice of filing from Actavis of an abbreviated new drug application ("ANDA") to the FDA for a generic version of Absorica (isotretinoin capsules). A Paragraph IV Certification Notice is filed when the sponsor company of the ANDA believes that its generic product is not infringing on a particular patent and/or that such patent is not valid. A patent infringement lawsuit against Actavis was filed by Sun, Cipher and Galephar in October 2013 and, as a result, the ANDA was subject to a 30-month stay of FDA approval, beginning on the date the notification letter was received. In October 2015, the Company, along with Sun and Galephar, entered into a settlement agreement with Actavis that dismissed the patent litigation suit. As part of the settlement agreement, Cipher, Sun and Galephar entered into a non-exclusive license agreement with Actavis under which Actavis may begin selling its generic version of Absorica in the U.S. on December 27, 2020 (approximately nine months prior to the expiration of the five Absorica patents in September 2021) or earlier under certain circumstances.

Under the terms of the agreement with Sun, the Company receives a royalty percentage in the mid-teens on net sales. Cipher's agreement with Sun is for a period of 10 years from the first commercial sale expiring in November 2022 and Sun has the right to extend the term for additional two year periods.

In July 2018, the Company amended its distribution and supply agreement (the "Sun Amendment") with Sun for Absorica. The Sun Amendment provides Sun with the ability to launch new isotretinoin products prior to the expiration of the agreement in November 2022. The Company will receive a royalty until December 2024 based on U.S. net sales from Sun's isotretinoin product portfolio. In addition, the Absorica New Drug Application ("NDA") will be returned to the Company on expiry of the agreement in November 2022.

On December 19, 2018, the Company received a Paragraph IV Certification Notice of Filing advising Sun, Sun Pharmaceuticals Industries Ltd. and Galephar that Upsher Smith Laboratories, LLC ("Upsher Smith") has filed an ANDA with the FDA seeking approval to manufacture, use, or sell a generic version of Absorica (10 mg, 20 mg, and 30 mg) prior to the expiration of U.S. Patent Nos. 7,435,427; 8,367,102; 8,952,064; 9,078,925; and 9,089,534. On January 30, 2019, Sun, Cipher and Galephar filed a complaint against Upsher Smith asserting infringement of the five patents. On February 12, 2019, Upsher Smith filed its answer to the complaint.

Rest of World

In 2014, the Company entered into a definitive distribution and supply agreement with Ranbaxy Laboratories Ltd. ("Ranbaxy India"), a Sun Pharma Company, under which Cipher granted Ranbaxy India the exclusive right to market, sell and distribute isotretinoin capsules in Brazil. Ranbaxy India plans to promote the product through a brand dermatology division in Brazil. Under the terms of this agreement, Cipher received an upfront payment and may be eligible for additional pre-commercial milestone payments. Cipher will supply the product and product manufacturing will be fulfilled by Galephar. Ranbaxy India will be responsible for all regulatory-related activities associated with gaining and maintaining regulatory approval of the product in Brazil. The product is not currently approved in Brazil.

In January 2018, the Company entered into a distribution and supply agreement with Italmex Pharma S.A. ("Italmex") granting Italmex the exclusive rights to market, sell and distribute isotretinoin products in Mexico. Under the terms of the agreement with Italmex, Cipher is eligible for regulatory and commercial milestone payments. Cipher will supply the product to Italmex, and product manufacturing will be fulfilled by Cipher's partner, Galephar. Italmex will be responsible for all regulatory activities associated with gaining and maintaining regulatory approval of the product in Mexico. The product is not currently approved in Mexico.

LIPOFEN® (CIP-FENOFIBRATE)

Lipofen is a novel formulation of the active ingredient fenofibrate, which is used in the treatment of hyperlipidemia, a cholesterol disorder. Hyperlipidemia is a condition characterized by high levels of low-density lipoprotein ("LDL") cholesterol and/or triglycerides (a type of fat found in the blood). Fenofibrate is known to lower LDL cholesterol and triglycerides and increase high-density lipoproteins ("HDL"), known as "good cholesterol". Cipher's U.S. marketing and distribution partner for Lipofen is Kowa Pharmaceuticals America, Inc. ("Kowa").

Lipofen was launched in the U.S. market in 2007. In 2014, Cipher and Kowa agreed to pre-emptively launch an authorized generic version of Lipofen in advance of the expiration of the product patent in January 2015. Since the beginning of 2015, Kowa has reduced their commercial efforts significantly on the promotion of Lipofen. Prescriptions for Lipofen and the authorized generic were down approximately 19% in the second quarter of 2019 compared to the second quarter of 2018, according to IQVIA.

CONZIP® / DURELA® (CIP-TRAMADOL ER)

CIP-TRAMADOL ER is a novel, extended-release formulation of the active ingredient tramadol, which is used for the management of moderate to moderately severe pain. CIP-TRAMADOL ER uses oral controlled-release beads, a drug delivery technology licensed from Galephar. Patents that expire in 2022 have been issued both in the U.S. and Canada for the product.

United States

The product received FDA approval in 2010. In June 2011, Cipher entered into a distribution and supply agreement with Vertical Pharmaceuticals Inc. ("Vertical"), a U.S. based specialty pharmaceutical company and the product was launched in the U.S. in September 2011 under the trade name ConZip. Under the terms of the agreement with Vertical, the Company receives a mid-teen royalty on net sales. The Company is responsible for product supply and manufacturing, which is fulfilled by Galephar.

According to IQVIA, the U.S. market in 2018 for extended release formulations of tramadol exceeded $36.0 million, which represents approximately 40% of the total tramadol immediate release and extended release prescription market compared to $48.0 million in 2017, which represented approximately 45% of the total tramadol immediate release and extended release prescription market.

An authorized generic version of the product was launched by Vertical in the U.S. market in July 2015.

In June 2017, the Company requested a full waiver from a post marketing pediatric study to assess the pharmacokinetics, efficacy and safety of tramadol for the management of moderate to moderately severe chronic pain in pediatric patients aged 2 to 17. In August 2017, the Company received a partial waiver from the FDA that amended the age group required for the study. The new requirement is to study the pharmacokinetics, efficacy and safety of ConZip for the management of pain severe enough to require daily around-the-clock, long-term opioid treatment for which alternative treatment options are inadequate in pediatric patients ages 12 to less than 17 years. The Company is drafting a protocol to submit to the FDA in 2019.

In September 2017, the Company received a letter from the FDA for a post-approval Risk Evaluation and Mitigation Strategy ("REMS"). This is an industry wide REMS program that applies to all opioid manufacturers. The Company is currently an active member of the opioid REMS consortium.

Canada

In August 2011, Cipher received Health Canada approval for CIP-TRAMADOL ER and in September 2011, Cipher entered into a distribution and supply agreement with Medical Futures Inc. ("Medical Futures"), a Canadian-based pharmaceutical company, under which Cipher granted Medical Futures the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Canada under the trade name Durela. Medical Futures was subsequently acquired by Tribute Pharmaceuticals Canada Inc. ("Tribute") and during the same month, POZEN Inc. announced the completion of the acquisition of Tribute. Effective, February 5, 2016, the new combined company was named Aralez Pharmaceuticals Inc., which was subsequently acquired by Nuvo Pharmaceuticals Inc. The Company receives a royalty on net sales of Durela in Canada. Cipher will supply the product and product manufacturing will be fulfilled by Galephar.

According to IQVIA, the Canadian market for extended-release tramadol was approximately CDN$19.0 million in 2018.

In June 2018, Health Canada issued a notice of intent to all tramadol manufacturers indicating it has initiated efforts to add tramadol to Schedule I of the *Controlled Drugs and Substance Act* and the Schedule to the Narcotic Control Regulations. The effective date of this proposed change is unknown at this time, however the Company is addressing changes that will be required in the tramadol supply chain when the scheduling is official.

Due to the increased focus on opioid abuse in Canada, Health Canada is strengthening their post market oversight of prescription opioids. As a result, the Minister has imposed terms and conditions on DURELA in a letter sent October 17, 2018, which required the Company to prepare a targeted Risk Management Plan ("t-RMP") by January 15, 2019. The Company submitted the t-RMP which proposed multiple surveillance tactics that precluded the need for a post marketing study.

On June 28, 2019, the Company received the review decision from Health Canada stating that the t-RMP is acceptable pending a few revisions. However, an additional post marketing study is not a requirement as the characterization of use of tramadol in the real world through Canadian data sources that can identify problematic opioid use indicators. The revised t-RMP for Durela will be submitted to Health Canada by December 20, 2019.

Rest of World

In April 2013, Cipher entered into a distribution and supply agreement with Tecnofarma International Ltd. ("Tecnofarma") under which Tecnofarma was granted the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Latin America. Tecnofarma, headquartered in Uruguay, operates in 18 Latin American countries and plans to launch the product in certain territories, including Brazil and Mexico. Under the terms of the agreement, Cipher received an upfront payment and is eligible for additional milestones based upon regulatory approval in Brazil and Mexico. Cipher will supply product to Tecnofarma, and product manufacturing will be fulfilled by Galephar. Tecnofarma launched CIP-TRAMADOL ER in Argentina in May 2016.

In February 2019, the Company was notified by its partner in Brazil that the application for registration with the National Agency of Sanitary Surveillance was completed. The two highest strengths of tramadol (200mg and 300mg) were not approved, however the 100mg strength was approved subject to additional information being provided to the agency on chemistry and manufacturing. The Company and its partner are considering their options to address the concerns raised in the rejection notice**.**

Product Pipeline

XYDALBA™

On March 22, 2018, Health Canada accepted the NDS for review of Xydalba (dalbavancin hydrochloride) and granted priority review status to the application. The Company received regulatory approval from Health Canada in September 2018 and expects to launch in 2019.

Xydalba for infusion is a second generation, semi-synthetic lipoglycopeptide, which consists of a lipophilic side-chain added to an enhanced glycopeptide backbone. Xydalba is the first and only 30-minute, one-dose treatment option for acute bacterial skin and skin structure infections (ABSSSI) that delivers a full course of IV therapy. Xydalba can be administered as either a one 1,500 mg dose or as a two-dose regimen of a 1,000 mg dose followed one week later by a 500 mg dose, each administered over 30 minutes. Xydalba demonstrates bactericidal activity in vitro against a range of Gram-positive bacteria, such as Staphylococcus aureus (including methicillin-resistant, also known as MRSA, strains) and Streptococcus pyogenes, as well as certain other Streptococcal species.

The Company acquired a licence for Canadian marketing rights to Xydalba through the acquisition of the Canadian business portfolio of Cardiome. The license is for a term of 10 years from commercial launch with a one time renewal option of five years. The license includes a royalty on net sales and milestones. Correvio will supply finished product to the Company.

TRULANCE®

On February 27, 2018, the Company acquired the exclusive Canadian rights to develop, market, distribute and sell TRULANCE (plecanatide) from Synergy. TRULANCE is a once-daily tablet approved by the FDA for the treatment of adults with CIC and IBS-C. The Company filed an NDS with Health Canada in the fourth quarter of 2018, which was accepted by Health Canada for review. Under the terms of the licensing agreement, the Company paid an upfront payment of $5.0 million. The transaction also includes a regulatory milestone payment of $0.8 million and royalties on net product sales in Canada.

A-101

On April 5, 2018, the Company acquired the exclusive Canadian rights to distribute and commercialize A-101 from Aclaris. A-101 is an FDA-approved topical product indicated for the treatment of raised SKs, which are commonly occurring non-cancerous skin growths that affect more than nine million Canadian adults and can be an aesthetic skin concern. A-101 was approved by the FDA in December 2017 and is marketed by Aclaris in the U.S. under the tradename Eskata™. A-101 is a proprietary, high-concentration hydrogen peroxide-based topical solution designed for in-office application by a healthcare provider. It is a targeted treatment applied directly to the raised SK using a pen-like applicator. The most common treatment for SKs is surgical procedures such as cryosurgery, which can cause discomfort, cosmetic imperfections, and require wound management. The Company filed an NDS with Health Canada in the fourth quarter of 2018, which was accepted by Health Canada for review. Under the terms of the licensing agreement, Aclaris received an upfront payment of $1.0 million and, upon achievement of certain milestone events, additional regulatory and commercial milestone payments of up to $2.8 million are applicable, as well as royalties from net product sales in Canada. The Company made a regulatory milestone payment of $0.5 million in the first quarter of 2019.

TREVYENT®

Trevyent is a development stage drug/device combination product that combines SteadyMed Ltd's ("SteadyMed") PatchPump technology with treprostinil, a vasodilatory prostacyclin analogue to treat pulmonary arterial hypertension ("PAH"). PatchPump is a proprietary, disposable, parenteral drug administration platform that is prefilled and preprogrammed at the site of manufacture. PAH is a type of high blood pressure that occurs in the right side of the heart and in the arteries that supply blood to the lungs. PAH worsens over time and is life-threatening because the pressure in a patient's pulmonary arteries rises to dangerously high levels, putting a strain on the heart. There is no cure for PAH, but several medications are available to treat symptoms, such as Remodulin (treprostinil sodium), the market-leading prostacyclin PAH therapy.

In April 2017, SteadyMed completed a successful clinical study of Trevyent. The study enrolled 60 healthy adult volunteers in an in-clinic setting designed to examine the performance of the PatchPump used by Trevyent. The goals of the study were to evaluate the safety and performance functions of the PatchPump delivery system as well as the tolerability of the on-body application of the six products. According to SteadyMed, the results indicated that the PatchPump devices performed as intended in all categories of evaluation, including dose accuracy and precision. In July 2017, SteadyMed submitted an NDA to the FDA for Trevyent in the United States. On August 31, 2017, SteadyMed announced that it received a Refusal to File ("RTF") letter from the FDA relating to the NDA. On September 28, 2017, SteadyMed announced that it had submitted a Type A Meeting Request and Briefing Document to the FDA in response to the RTF. On December 8, 2017, SteadyMed announced that it had received final minutes from the FDA on the work necessary to resubmit its NDA. SteadyMed was subsequently acquired by United Therapeutics Corporation ("United") in April 2018. United resubmitted the NDA in June 2019.

Cipher acquired a licence for Canadian marketing rights to Trevyent through the acquisition of the Canadian business portfolio of Cardiome. The license is for a term of 10 years from commercial launch. The license includes a royalty on net sales and milestones. Correvio will supply finished product to Cipher.

CF101

On March 23, 2015, Cipher announced the licensing of the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite Biopharma Ltd ("Can-Fite") for moderate to severe plaque psoriasis and rheumatoid arthritis ("RA"). The active agent of CF101 is IB-MECA (methyl 1-[N6-(-3-iodobenzyl)-adenin-9-yl]-beta-D-ribofuronamide), that is active by modulating the key signaling proteins such as NF-kB and PI3K, resulting in inhibition of inflammatory cytokine production.

CF101 completed a phase II/III double-blind, placebo-controlled study, which was designed to test the efficacy of CF101 in patients with moderate to severe plaque psoriasis. The study enrolled 326 patients through 17 clinical centers in the U.S., Europe, and Israel. Top-line results from the trial were published by Can-Fite at the end of March 2015. Results from this phase II/III trial and results from the prior phase II trial in psoriasis were both positive, showing that CF101 effectively improved disease symptoms. In addition, at the end of 2013, CF101 completed a phase IIb study for active RA, and Can-Fite has completed the study design for a phase III program. Can-Fite is commencing two phase III programs, one for RA and one for psoriasis. Can-Fite continues to enrol patients into the phase III RA program and has initiated patient enrolment for the psoriasis phase III program. Cipher is not responsible for any of these development costs.

Approximately one million people in Canada have psoriasis, according to Canadian Dermatology Association in 2018. In moderate to severe cases, the most common treatment options are systemic biologic drugs, which are delivered by injection or intravenous infusion and have well-known shortcomings, including increased risk of infection. CF101 is an oral small molecule drug formulated in a tablet and has an excellent human safety profile, demonstrated in more than 1,000 patients.

The timeline to regulatory submissions to Health Canada will be determined by the successful completion of the remaining clinical trial program.

Under the terms of the agreement, Can-Fite received an upfront payment of $1.65 million and is eligible for milestone payments of up to $2.0 million and royalties from product sales in Canada. The agreement provides that Can-Fite will deliver finished product to Cipher.

DTR-001

On May 2, 2016, the Company licensed the worldwide rights to develop, market and sell an investigational tattoo removal cream from Dalhousie University. The product candidate, which is applied topically, has shown encouraging results in pre-clinical testing for the removal or reduction of the appearance of tattoos. The product candidate is currently at the pre-clinical stage of development.

Under the terms of the agreement, an upfront payment of CDN$75,000 was made by Cipher upon execution of the agreement and the agreement contains milestone payments of up to CDN$3.6 million based on future regulatory and commercial sales milestones, as well as royalties on commercial sales.

ASF-1096

In February 2015, Cipher acquired the worldwide rights to ASF-1096 from Astion Pharma. ASF-1096 is a product candidate for the treatment of dermatomyositis. The active agent of ASF-1096 is the R-enantiomer of salbutamol that is thought to exert an anti-inflammatory activity. ASF-1096 contains purified R-salbutamol formulated into a cream.

Cipher has an orphan drug indication in the European Union ("EU") for ASF-1096, a product candidate that the Company believes has promise as a treatment for discoid lupus erythematosus, a highly disfiguring and rare disease with no current cure as well as other potential rare conditions in the European market. In the U.S., this indication does not meet the requirements for orphan drug status. Cipher is reviewing the drug development program and potential indications to support the approval of ASF-1096 in the North American and European markets. In June 2016, Cipher entered into a definitive licensing agreement with Edesa Biotech Inc. ("Edesa"), under which Cipher granted Edesa the exclusive worldwide rights to develop, market and sell ASF-1096 for the treatment of anorectal indications. Under the terms of the agreement, Cipher is eligible to receive clinical, regulatory and commercial milestone payments, along with royalties on net sales.

Litigation

From time to time, during the ordinary course of business, the Company may be threatened with, or may be named as, a defendant in various legal proceedings, including lawsuits based upon product liability, wrongful dismissal, personal injury, breach of contract and lost profits or other consequential damage claims.

Selected Financial Information

The interim consolidated statements of income and comprehensive income and interim consolidated statements of cash flows for the previously reported U.S. segment are presented as discontinued operations, separate from the Company's continuing operations which is comprised of the Canadian segment. This MD&A reflects only the results of continuing operations, unless otherwise noted.

The income (loss) from discontinued operations included in the consolidated statement of income and comprehensive income was negligible for the three and six months ended June 30, 2019. The income (loss) from discontinued operations included in the consolidated statement of income and comprehensive income was income of $0.2 million and a negligible loss for the three and six months ended June 30, 2018, respectively.

The following information has been prepared in accordance with IFRS in U.S. dollars.

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Net revenue	**5.6**	7.0	**10.7**	11.5
Total operating expenses	**3.5**	4.1	**7.1**	9.9
Total other expenses (income)	**0.3**	**—**	**0.5**	(0.1)
Income for the period from continuing operations	**1.4**	1.9	**2.2**	1.0
Income for the period from discontinued operations	**—**	0.2	**—**	—
Income from continuing operations per share:				
Basic and diluted income	**0.05**	0.07	**0.08**	0.04
Income from discontinued operations per share:				
Basic and diluted income	**—**	0.01	**—**	—
Total assets	**53.0**	61.0	**53.0**	61.0
Total non-current liabilities	**8.5**	13.6	**8.5**	13.6

The fluctuations in reported results during this period were primarily from the following factors:

- In Q2 2019, the Company incurred restructuring costs of $0.7 million recorded in operating expenses;
- In Q2 2019, licensing revenue decreased by $1.7 million partly offset by an increase in product revenue of $0.4 million; and
- In Q2 2018, the Company incurred additional costs of $0.4 million relating to the Cardiome acquisition reported in operating expenses.

For a detailed review of operating results, see “Review of Operating Results”.

Review of Operating Results

REVENUE

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Licensing revenue	**3,526**	5,241	**6,857**	8,001
Product revenue	**2,070**	1,716	**3,882**	3,529
Net revenue	**5,596**	6,957	**10,739**	11,530

Total net revenue decreased by $1.4 million or 20% to $5.6 million for the three months ended June 30, 2019 compared to $7.0 million for the three months ended June 30, 2018. Total net revenue decreased by $0.8 million or 7% to $10.7 million for the six months ended June 30, 2019 compared to $11.5 million for the six months ended June 30, 2018.

Licensing Revenue

Licensing revenue decreased by $1.7 million or 33% to $3.5 million for the three months ended June 30, 2019 compared to $5.2 million for the three months ended June 30, 2018.

Licensing revenue from Absorica in the U.S. was $2.9 million for the three months ended June 30, 2019, a decrease of $1.6 million or 37% compared to $4.5 million for the three months ended June 30, 2018. Absorica’s market share for the three months ended June 30, 2019 is at approximately 8% compared to approximately 11% for the three months ended June 30, 2018.

Licensing revenue from Lipofen and the authorized generic version of Lipofen remained relatively unchanged at $0.5 million for the three months ended June 30, 2019 and 2018.

Licensing revenue from the extended-release tramadol product (ConZip in the U.S. and Durela in Canada) was $0.1 million for the three months ended June 30, 2019, a decrease of $0.1 million compared to revenue of $0.2 million for the three months ended June 30, 2018.

Licensing revenue decreased by $1.1 million or 14% to $6.9 million for the six months ended June 30, 2019 compared to $8.0 million for the six months ended June 30, 2018.

Licensing revenue from Absorica in the U.S. was $5.7 million for the six months ended June 30, 2019, a decrease of $1.0 million or 16% compared to $6.7 million for the six months ended June 30, 2018.

Licensing revenue from Lipofen and the authorised generic version of Lipofen was $0.9 million for the six months ended June 30, 2019, compared to $1.0 million for the six months ended June 30, 2018.

Licensing revenue from the extended-release tramadol product (ConZip in the U.S. and Durela in Canada) remained relatively unchanged at $0.3 million for the six months ended June 30, 2019 and 2018.

Product Revenue

Product revenue increased by $0.4 million or 21% to $2.1 million for the three months ended June 30, 2019 compared to $1.7 million for the three months ended June 30, 2018.

Product revenue from Epuris increased to $1.9 million for the three months ended June 30, 2019 compared to $1.5 million for the three months ended June 30, 2018. Epuris had a prescription market share of over 38% in Canada for the three months ended June 30, 2019 compared to over 33% for the three months ended June 30, 2018.

Product revenue for the remaining brands, Ozanex, Beteflam, Actikerall, Brinavess and Vaniqa was $0.2 million for the three months ended June 30, 2019 compared to $0.2 million for the three months ended June 30, 2018.

Product revenue increased by $0.4 million or 10% to $3.9 million for the six months ended June 30, 2019 compared to $3.5 million for the six months ended June 30, 2018.

Product revenue from Epuris increased to $3.5 million for the six months ended June 30, 2019 compared to $2.9 million for the six months ended June 30, 2018.

Product revenue for the remaining brands, Ozanex, Beteflam, Actikerall, Brinavess and Vaniqa was $0.4 million for the six months ended June 30, 2019 compared to $0.6 million for the six months ended June 30, 2018.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Cost of products sold	**718**	563	**1,362**	1,059
Research and development	**21**	146	**76**	190
Selling, general and administrative	**2,105**	3,399	**5,048**	6,808
Restructuring costs	**660**	—	**660**	—
Impairment of intangible assets	**—**	—	**—**	1,832
Total operating expenses	**3,504**	4,108	**7,146**	9,889

Total operating expenses decreased by $0.6 million or 15% to $3.5 million for the three months ended June 30, 2019 compared to $4.1 million for the three months ended June 30, 2018. The decrease in operating expenses for the three months ended June 30, 2019 is primarily due to a decrease in selling, general and administrative expenses mainly related to acquisition of Cardiome and other transactions executed in the comparative period.

For the six months ended June 30, 2019 total operating expenses decreased by $2.7 million or 28% to $7.1 million compared to $9.9 million for the six months ended June 30, 2018, which includes $0.8 million of transaction costs and $1.8 million in the impairment charge related Dermadexin and Pruridexin.

Cost of Products Sold

Cost of products sold for the three months ended June 30, 2019 increased by $0.1 million to $0.7 million compared to $0.6 million for the three months ended June 30, 2018. Gross margin on product sales was down slightly to 65% for the three months ended June 30, 2019 compared to 67% for the three months ended June 30, 2018.

Cost of products sold for the six months ended June 30, 2019 was $1.4 million compared to $1.1 million for the six months ended June 30, 2018. Gross margin on product sales declined to 65% for the six months ended June 30, 2019 compared to 70% for the six months ended June 30, 2018. The improvement relates to changes in the OHIP+ program.

Research and Development

Research and development (“R&D”) expenses represent the costs directly associated with developing and advancing our pipeline products and the cost of regulatory submissions in Canada.

R&D expense was negligible amounts for the three and six months ended June 30, 2019, respectively, compared to $0.1 million and $0.2 million for the three and six months ended June 30, 2018, respectively.

Selling, General and Administrative

Selling, general and administrative (“SG&A”) expense was $2.1 million for the three months ended June 30, 2019, a decrease of $1.3 million or 38% compared to $3.4 million for the three months ended June 30, 2018. The decrease in SG&A costs for the three months ended were driven by an overall reduction in the compensation costs, including share-based compensation and reduction in consulting and professional fees.

SG&A expense was $5.0 million for the six months ended June 30, 2019, a decrease of $1.8 million or 26% compared to $6.8 million for the six months ended June 30, 2018. The decrease in SG&A expense for the six months ended related to transaction costs incurred

in connection with the acquisition of Cardiome, the licensing of Trulance and A101, and the out-licensing of Isotretinoin in the comparative period.

Also included in SG&A is amortization of intangible assets of $0.2 million for the three months ended June 30, 2019 compared to $0.1 million for the three months ended June 30, 2018. Amortization of intangibles for the six months ended June 30, 2019 was $0.4 million compared to $0.3 million for the six months ended June 30, 2018.

Restructuring Costs

Restructuring costs were $0.7 million for the three and six months ended June 30, 2019 compared to a negligible amount in the prior comparative period. These include termination benefits and professional fees.

Impairment of Intangible Assets

In Q1 2018, the Company re-assessed the success of its efforts to out license its Astion assets acquired in 2015 and decided not to continue to actively pursue partners for Dermadexin and Pruridexin products in this portfolio. The Company recorded an impairment charge of $1.8 million representing the carrying value of those assets. There was no impairment charge recorded for the three and six months ended June 30, 2019.

OTHER EXPENSES (INCOME)

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Interest expense	**266**	215	**541**	397
Change in fair value of derivative financial instrument	**(3)**	(121)	**(15)**	(442)
Interest income	**(45)**	(62)	**(98)**	(114)
Foreign exchange loss (gain)	**37**	(25)	**89**	50
Total other expenses (income)	**255**	7	**517**	(109)

Total other expense (income) increased by $0.2 million and $0.6 million for the three and six months ended June 30, 2019, respectively, compared to the same periods ended June 30, 2018. Other expenses in the current period is mainly related to interest expense. In the comparative period, other income is primarily related to the change in fair value of derivative financial instrument.

Interest Expense

Interest expense increased by $0.1 million or 24% to $0.3 million for the three months ended June 30, 2019 compared to $0.2 million for the three months ended June 30, 2018. The interest rate is impacted by LIBOR and the Company's debt to adjusted EBITDA ratio. Interest expense for the three and six months ended June 30, 2019 was comprised of interest payable and interest accretion on the credit facility and lease obligations. The interest rate applicable to the credit facility in the second quarter of 2019 was 5.09% compared to 3.60% in the second quarter of 2018.

Change in Fair Value of Derivative Financial Instrument

The gain from the change in the fair value of the derivative financial instrument was negligible for the three and six months ended June 30, 2019 compared to a gain of $0.1 million and $0.4 million for the three and six months ended June 30, 2018, respectively.

Interest Income

Interest income for the three and six months ended June 30, 2019 remained relatively unchanged compared with the three and six months ended June 30, 2019.

Foreign Exchange

The Company experienced a de minimus foreign exchange gain for the three and six months ended June 30, 2019 compared to a de minimus foreign exchange gain for the three and six months ended June 30, 2018. The Company is exposed to currency risk through its net assets and certain recurring transactions denominated in Canadian dollars.

INCOME TAXES

Income tax expense is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax expense for the three months ended June 30, 2019 was $0.5 million compared to $0.9 million for the three months ended June 30, 2018. The income tax expense for the six months ended June 30, 2019 was $0.9 million compared to $0.8 million for the six months ended June 30, 2018.

At each reporting period, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income.

As at June 30, 2019, the Company has recognized deferred tax assets in the interim consolidated statement of financial position of $1.6 million. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

INCOME (LOSS) AND INCOME (LOSS) PER COMMON SHARE

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Income for the period from continuing operations	**1,359**	1,915	**2,175**	964
Basic and diluted income per share from continuing operations	**0.05**	0.07	**0.08**	0.04
Income (loss) for the period from discontinued operations	**35**	213	**35**	(37)
Basic and diluted income per share from discontinued operations	**—**	0.01	**—**	—
Income and comprehensive income for the period	**1,394**	2,128	**2,210**	927
Basic and diluted income per share	**0.05**	0.08	**0.08**	0.03

Basic income per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted income per common share is calculated taking into account dilutive instruments that are outstanding.

Income from continuing operations per common share on both a basic and diluted basis for the three months ended June 30, 2019 was $0.05 compared to income per common share on both a basic and diluted basis of $0.07 for the three months ended June 30, 2018. Income from continuing operations per common share on both a basic and diluted basis for the six months ended June 30, 2019 was $0.08 compared to income per common share on both a basic and diluted basis of $0.04 for the six months ended June 30, 2018.

The weighted average number of common shares outstanding for the three months ended June 30, 2019 was 26,923,492 (three months ended June 30, 2018 – 26,767,803). The weighted average number of common shares outstanding for the six months ended June 30, 2019 was 26,884,457 (for the six months ended June 30, 2018 – 26,749,751).

The dilutive weighted average number of common shares outstanding for the three months ended June 30, 2019 was 27,115,909 (three months ended June 30, 2018 – 27,003,385). The diluted weighted average number of common shares outstanding for the six months ended June 30, 2019 was 27,017,573 (for the six months ended June 30, 2018 – 26,886,843).

ADJUSTED EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-IFRS financial measure. The term EBITDA 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 interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, loss on debt extinguishment, restructuring costs, non-cash share-based compensation, changes in fair value of derivative financial instruments, impairment of intangible assets and foreign exchange gains and losses from the translation of Canadian cash balances.

The Company considers Adjusted EBITDA as a key metric in assessing business and management 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 months ended June 30, 2019 was $3.0 million, a decrease of $0.3 million or 9% compared to $3.3 million for the three months ended June 30, 2018.

Adjusted EBITDA for the six months ended June 30, 2019 was $4.8 million, an increase of $0.5 million or 11% compared to $4.3 million for the six months ended June 30, 2018.

The following is a summary of how EBITDA and Adjusted EBITDA are calculated:

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	**$**
Income from continuing operations	**1,359**	1,915	**2,175**	964
Add back:				
Depreciation and amortization	**310**	166	**609**	391
Interest expense, net	**221**	153	**443**	283
Income taxes	**478**	927	**901**	786
EBITDA	**2,368**	3,161	**4,128**	2,424
Change in fair value of derivative financial instrument	**(3)**	(121)	**(15)**	(442)
Restructuring costs	**660**	—	**660**	—
Loss (gain) from the translation of Canadian cash balances	**(37)**	34	**(63)**	75
Impairment of intangible assets	**—**	—	**—**	1,832
Share-based compensation	**37**	246	**69**	403
Adjusted EBITDA	**3,025**	3,320	**4,779**	4,292

Liquidity and Capital Resources

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2019**	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Cash provided by operating activities	**3,360**	1,052	**4,917**	9,094
Cash used in investing activities	**(111)**	(20,141)	**(1,288)**	(25,141)
Cash provided by (used in) financing activities	**(1,905)**	4,788	**(4,155)**	2,997
Cash used in discontinued operations	**(56)**	(1,021)	**(645)**	(2,477)
Net change in cash	**1,288**	(15,322)	**(1,171)**	(15,527)
Impact of foreign exchange on cash	**37**	(34)	**63**	(75)
Cash, beginning of period	**7,924**	27,995	**10,357**	28,241
Cash, end of period	**9,249**	12,639	**9,249**	12,639

Cash

As at June 30, 2019, the Company had cash of $9.2 million compared to $10.4 million as at December 31, 2018.

Operating Activities

Cash provided by operating activities was $3.4 million for the three months ended June 30, 2019 compared to $1.1 million for the three months ended June 30, 2018. Cash provided by operating activities, excluding working capital was $2.3 million for the three months ended June 30, 2018 compared to $3.1 million for the three months ended June 30, 2018. The increase in cash provided by operating

activities reflects a recovery of $1.0 million of working capital compared to a $2.0 million investment in working capital in the comparative period.

For the six months ended June 30, 2019, cash provided by operating activities was $4.9 million compared to $9.1 million for the six months ended June 30, 2018. The decrease reflects a recovery of $0.9 million of working capital compared to a recovery of $4.9 million in working capital in the comparative prior period. The decrease in the working capital is directly attributable to the payments received from our licensing partners in the first quarter relating to licensing revenue earned in the previous quarter. Royalties earned are paid by our partners on a quarterly basis, subsequent to each quarter end.

Investing Activities

Cash used in investing activities was $0.1 million and $1.3 million for the three and six months ended June 30, 2019, respectively, compared to $20.1 million and $25.1 million for the three and six months ended June 30, 2018, respectively.

Cash used in investing activities for the three and six months ended June 30, 2018 is related to the acquisition of the Trulance license, A-101 license and Cardiome acquisition. (see “Significant Transactions” – 2018).

Financing Activities

Cash used in financing activities was $1.9 million for the three months ended June 30, 2019 compared to cash provided by financing activities of $4.8 million for the three months ended June 30, 2018. The decrease in cash provided by financing activities is related to the $5 million additional drawdown on the credit facility during Q2 2018 offset by increase in principal repayments of credit facility by $2.3 million in Q2 2019.

For the six months ended June 30, 2019, cash used in financing activities was $4.2 million compared to cash provided of $3.0 million for the six months ended June 30, 2018. The six months ended June 30, 2019 includes two credit facility payments of $2.0 million whereas the comparative period includes one payment of $1.7 million.

Future cash requirements will depend on a number of factors, including investments in product launches, expenditures on R&D for product candidates, costs associated with maintaining regulatory approvals, the timing of payments received or made under licensing or other collaborative agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the acquisition of licenses for new products or technologies, the status of competitive products and the success of the Company in developing and maintaining markets for its products.

Financial Instruments

As at June 30, 2019, the Company’s financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the interim consolidated statements of income (loss) and comprehensive income (loss) and is classified as Level 2 (as defined under IFRS). Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values.

The credit facility is also measured at amortized cost. As at June 30, 2019, the fair value of the credit facility is approximately $13.6 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk, interest rate risk and capital management risk.

Risk Management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk, currency risk, interest rate risk and capital management risk. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentration of credit risk consist of cash and accounts receivable. The Company's investment policies are designed to mitigate the possibility of a deterioration of principal and enhance the Company's ability to meet its liquidity needs and provide reasonable returns within those parameters. Cash is on deposit with Canadian chartered banks. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts.

The Company has concentration risk, as approximately 82.5% of total sales came from three customers and 78.2% of total accounts receivable is due from two customers.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

The Company has financed its cash requirements primarily through operations and its credit facility. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing.

The Company has financial covenants in its credit facility that are based on predefined trailing adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") formula. The Company's adjusted EBITDA is subject to significant fluctuations based on revenue from its licensing business. A decline in licensing revenue could cause the Company to breach on one or more covenants.

The Company anticipates that its current cash, together with the cash flow that is generated from operations will be sufficient to execute its current business plan for 2019 and meet its debt obligations.

Currency Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company is exposed to currency risk through its net assets and certain recurring transactions that are denominated in Canadian dollars.

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 credit facility bears interest that is pegged to LIBOR and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

Capital Management Risk

The Company's managed capital is comprised of cash, the credit facility and shareholders' equity. The Company's objective when managing its capital structure is to safeguard its ability to continue as a going concern in order to provide returns for shareholders, finance strategic growth plans and satisfies financial obligations as they become due. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time. The Company relies on cash on hand, cash flows from operations and debt financing to finance growth initiatives.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series. As at June 30, 2019, the Company had 26,933,744 common shares issued and outstanding compared to 26,778,683 as at June 30, 2018. Subsequent to quarter end, 4,524 common shares were issued under the Company's employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 26,938,298 as of the date of this MD&A. No preference shares were issued and outstanding as at June 30, 2019.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Risk Factors

Reference is made to the description of risk factors with respect to the Company and its business in the Company's most recently filed Annual Information Form filed on SEDAR at www.sedar.com and to related information in other filings with Canadian securities regulatory authorities.

Disclosure Controls and Procedures

There have been no changes in the Company's internal control over financial reporting during the most recent interim period ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of the end of the period covered by this MD&A and the accompanying condensed interim consolidated financial statements, the Company's management evaluated the design of its disclosure controls and procedures and internal controls over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed interim consolidated financial statements for external purposes in accordance with IFRS as at June 30, 2019.

Selected Quarterly Information

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	**June 30, 2019**	Mar 31, 2019
	$	$
Net revenue	**5.6**	5.1
Net income for the period	**1.4**	0.8
Basic income per Common Share	**0.05**	0.03
Diluted income per Common Share	**0.05**	0.03

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018
	$	$	$	$
Net revenue	6.4	4.8	7.0	4.6
Income (loss) and comprehensive income (loss) for the period	(0.6)	0.7	2.1	(1.0)
Basic income (loss) per Common Share	(0.02)	0.03	0.07	(0.04)
Diluted income (loss) per Common Share	(0.02)	0.03	0.07	(0.04)

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2017	Sept 30, 2017	June 30, 2017	Mar 31, 2017
	$	$	$	$
Net revenue [(1)]	12.1	10.0	9.9	8.1
Income (loss) and comprehensive income (loss) for the period	3.9	3.9	4.4	(1.6)
Basic income (loss) per Common Share [(1)]	0.14	0.15	0.16	(0.06)
Diluted income (loss) per Common Share [(1)]	0.14	0.15	0.16	(0.06)

(1) Amounts have been restated upon the full retrospective adoption of IFRS 15*, Revenue from Contracts with Customers.*

Cipher Pharmaceuticals Inc.

Interim condensed consolidated financial statements
Unaudited
For the three months and six months ended
June 30, 2019

Interim consolidated statements of financial position

[in thousands of United States dollars – unaudited]

As at

	June 30, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	**9,249**	10,357
Accounts receivable	**7,832**	10,470
Inventory	**612**	772
Prepaid expenses and other assets *[note 2]*	**817**	1,336
	18,510	22,935
Property and equipment, net *[notes 2 & 6]*	**2,475**	690
Intangible assets, net	**13,721**	14,130
Goodwill *[note 13]*	**15,706**	15,706
Lease receivable	**920**	—
Deferred tax assets	**1,626**	2,225
Total assets	**52,958**	55,686
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *[notes 3 & 13]*	**8,387**	12,055
Contract liability *[note 3]*	**594**	1,072
Current portion of lease obligations *[notes 2 & 6]*	**436**	81
Current portion of credit facility *[note 4]*	**8,000**	8,069
	17,417	21,277
Credit facility *[note 4]*	**5,566**	9,500
Derivative financial instrument *[note 4]*	**4**	19
Lease obligations *[notes 2 & 6]*	**2,884**	131
Total liabilities	**25,871**	30,927
Commitments and contingencies *[note 12]*		
Shareholders' equity		
Share capital *[note 7]*	**18,589**	18,324
Contributed surplus	**5,177**	5,324
Accumulated other comprehensive loss	**(9,514)**	(9,514)
Retained earnings	**12,835**	10,625
Total shareholders' equity	**27,087**	24,759
Total liabilities and shareholders' equity	**52,958**	55,686

See accompanying notes

Interim consolidated statements of income and comprehensive income

[in thousands of United States dollars – unaudited]

For the three and six months ended June 30

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
Revenue				
Licensing revenue *[note 8]*	**3,526**	5,241	**6,857**	8,001
Product revenue	**2,070**	1,716	**3,882**	3,529
Net revenue	**5,596**	6,957	**10,739**	11,530
Operating expenses				
Cost of products sold	**718**	563	**1,362**	1,059
Research and development	**21**	146	**76**	190
Selling, general and administrative *[notes 6, 9 and 13]*	**2,105**	3,399	**5,048**	6,808
Restructuring costs	**660**	—	**660**	—
Impairment of intangible assets *[note 5]*	**—**	—	**—**	1,832
Total operating expenses	**3,504**	4,108	**7,146**	9,889
Other expenses (income)				
Interest expense *[notes 4 & 6]*	**266**	215	**541**	397
Change in fair value of derivative financial instrument *[note 4]*	**(3)**	(121)	**(15)**	(442)
Interest income	**(45)**	(62)	**(98)**	(114)
Foreign exchange loss (gain)	**37**	(25)	**89**	50
Total other expenses (income)	**255**	7	**517**	(109)
Income before income taxes from continuing operations	**1,837**	2,842	**3,076**	1,750
Current income tax expense	**152**	294	**302**	244
Deferred income tax expense	**326**	633	**599**	542
Total income tax expense	**478**	927	**901**	786
Income and comprehensive income from continuing operations	**1,359**	1,915	**2,175**	964
Income (loss) and comprehensive income (loss) from discontinued operations *[note 3]*	**35**	213	**35**	(37)
Net income and comprehensive income for the period	**1,394**	2,128	**2,210**	927
Income from continuing operations per common share *[note 11]*				
Basic	**0.05**	0.07	**0.08**	0.04
Diluted	**0.05**	0.07	**0.08**	0.04
Income (loss) from discontinued operations per common share *[note 11]*				
Basic	**0.00**	0.01	**0.00**	0.00
Diluted	**0.00**	0.01	**0.00**	0.00
Income and comprehensive income per common share *[note 11]*				
Basic	**0.05**	0.08	**0.08**	0.03
Diluted	**0.05**	0.08	**0.08**	0.03

See accompanying notes

Interim consolidated statements of changes in shareholders' equity

[in thousands of United States dollars – unaudited]

For the six months ended June 30

	Share capital		Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	[000s]	$	$	$	$	$
Balance, January 1, 2019	**26,821**	**18,324**	**5,324**	**(9,514)**	**10,625**	**24,759**
Net income for the period	**—**	**—**	**—**	**—**	**2,210**	**2,210**
Shares issued under the share purchase plan *[note 7]*	**48**	**57**	**—**	**—**	**—**	**57**
Exercise of stock options *[note 7]*	**—**	**—**	**—**	**—**	**—**	**—**
Shares issued under the Restricted Share Unit plan	**65**	**208**	**(208)**	**—**	**—**	**—**
Share-based compensation expense *[note 7]*	**—**	**—**	**61**	**—**	**—**	**61**
Balance, June 30, 2019	**26,934**	**18,589**	**5,177**	**(9,514)**	**12,835**	**27,087**
Balance, January 1, 2018	26,721	18,020	4,715	(9,514)	10,082	23,303
Net income for the period	—	—	—	—	927	927
Exercise of stock options *[note 7]*	1	2	(1)	—	—	1
Shares issued under the share purchase plan *[note 7]*	21	60	—	—	—	60
Shares issued under the Restricted Share Unit plan	36	159	(159)	—	—	—
Share-based compensation expense *[note 7]*	—	—	394	—	—	394
Balance, June 30, 2018	26,779	18,241	4,949	(9,514)	11,009	24,685

See accompanying notes

Interim consolidated statements of cash flows

[in thousands of United States dollars – unaudited]

For the six months ended June 30

	2019 $	2018 $
Operating activities		
Net income for the period from continuing operations	**2,175**	964
Items not affecting cash:		
Depreciation of property and equipment	**185**	75
Amortization of intangible assets	**424**	316
Impairment of intangible assets *[note 5]*	**—**	1,832
Share-based compensation	**69**	403
Foreign exchange loss on cash and lease obligations	**16**	75
Change in fair value of derivative financial instrument	**(15)**	(442)
Interest on long-term liabilities	**541**	397
Deferred income taxes	**599**	542
Changes in non-cash operating items:		
Accounts receivable	**2,638**	9,442
Inventory	**160**	(328)
Prepaid expenses and other assets	**408**	354
Accounts payable and accrued liabilities	**(2,330)**	(4,536)
Contract liability	**47**	—
Cash provided by operating activities	**4,917**	9,094
Investing activities		
Purchase of property and equipment	**(796)**	—
Gain on disposal of property and equipment	**23**	—
Acquisition of intangible assets	**(515)**	(6,000)
Acquisition of Cardiome Pharma Corp.	**—**	(19,141)
Cash used in investing activities	**(1,288)**	(25,141)
Financing activities		
Interest payments	**(473)**	(260)
Principal repayments	**(4,000)**	(1,666)
Proceeds from credit facility	**—**	5,000
Financing costs	**—**	(108)
Recovery (payment) of lease obligations *[note 6]*	**269**	(21)
Proceeds from shares issued under the share purchase plan	**49**	51
Proceeds from exercise of stock options	**—**	1
Cash (used in) provided by financing activities	**(4,155)**	2,997
Cash used in discontinued operations *[note 3]*	**(645)**	(2,477)
Net decrease in cash during the period	**(1,171)**	(15,527)
Impact of foreign exchange on cash	**63**	(75)
Cash, beginning of period	**10,357**	28,241
Cash, end of period	**9,249**	12,639

See accompanying notes

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

1. Nature of operations

Cipher Pharmaceuticals Inc. ["Cipher"] and its subsidiaries [together the "Company"] is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late stage products. The Company acquires products that fulfil unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada and the United States ["U.S."] or indirectly through partners in the U.S., Canada and Latin America. The Company is building its business through product licensing and acquisitions. Cipher was incorporated under the *Business Corporations Act* of Ontario on January 9, 2004 and is located at 209 Oak Park Blvd., Suite 501, Oakville, Ontario.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ["IAS"] 34, *Interim Financial Reporting*. The disclosures contained in these interim condensed consolidated financial statements do not include all of the requirements of International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board for annual financial statements. The interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS, and are available on SEDAR at www.sedar.com. The interim condensed consolidated financial statements are based on accounting policies as described in the 2018 annual consolidated financial statements, except for the adoption of new standards effective as of January 1, 2019.

The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned legal subsidiaries: Cipher US Holdings Inc., Cipher US Holdco LLC, Cipher Pharmaceuticals US LLC and Cardiome Pharma Corp. ["Cardiome"]. All significant intercompany balances and transactions have been eliminated upon consolidation.

The Board of Directors approved these interim condensed consolidated financial statements on August 8, 2019.

Business combinations

The acquisition during the three months ended June 30, 2018 has been accounted for as a business combination using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in the interim consolidated statements of income and comprehensive income as incurred. At the acquisition date, the identifiable assets acquired, and the liabilities assumed are initially recognized at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree [if any] over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Changes in fair value that are not considered measurement adjustments, are recognized in the interim consolidated statements of income and comprehensive income. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" [which cannot exceed one year from the acquisition date] about facts and circumstances that existed at the acquisition date. Other than measurement period adjustments, contingent consideration that is classified as a financial asset or a financial liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in the interim consolidated statements of income and comprehensive income.

The Company assesses whether an acquisition should be accounted for as an asset acquisition under IAS 16 or a business combination under IFRS 3, *Business Combinations* ["IFRS 3"]. This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs, processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company's acquisition of Cardiome was accounted for as a business combination.

Goodwill

Goodwill arises on business combinations and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ["CGUs'], or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the groups of CGUs which contains goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Fair value of financial instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, pricing models, normally with observable market based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgment is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and, therefore, may not be reflective of future fair values.

As at June 30, 2019, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the interim consolidated statements of income and comprehensive income and is classified as Level 2 [as defined under IFRS]. Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate their carrying values.

The credit facility is measured at amortized cost. As at June 30, 2019, the fair value of the credit facility is approximately $13,566. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

Changes in accounting policies

IFRS 16, *Leases* ["IFRS 16"], sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is retrospectively applied with the cumulative effect of initially applying the standard recognized at the date of initial application.

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

The Company elected to use the following practical expedients: [i] the transition application practical expedient allowing the standard to only be applied to contracts that were previously identified as leases applying IAS 17, [ii] the transition application practical expedient to elect to not apply IFRS 16 to leases that expired within 12 months following the adoption date of January 1, 2019; [iii] the recognition exemption to not apply IFRS 16 to lease contracts for which the underlying asset is of low value, and [iv] the recognition exemption to not apply IFRS 16 to lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option.

Before the adoption of IFRS 16, the Company classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest [recognized as finance costs] and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the interim consolidated statements of income and comprehensive income on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Company's previous leased office expired on December 31, 2018 and is, therefore, not recorded in the comparative consolidated statement of financial position in accordance with IFRS 16. Instead, the lease payments for the previous leased office is recorded in the comparative interim consolidated statements of income and comprehensive income within selling, general and administrative expenses.

Right-of-use assets: The Company recognizes right-of-use assets at the commencement date of the lease [i.e., the date the underlying asset is available for use]. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease obligations: At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease receivable: IFRS 16 requires the Company's subleased office space in the U.S. to be recorded as a financial asset equal to the present value of cash flows expected to be received from the sublessor. The current portion of this amount is recorded within prepaid expenses and other assets while the long-term portion is recorded in lease receivable in the Company's interim consolidated statements of financial position.

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

The adoption of IFRS 16 had the following impacts as at January 1, 2019:

	December 31, 2018 as presented	January 1, 2019
	$	$
Assets		
Prepaid expenses and other assets	1,336	1,512
Property and equipment	690	2,302
Lease receivable	—	1,017
	2,026	4,831
Liabilities		
Accounts payable and accrued liabilities	12,136	11,924
Current portion of lease obligations	—	461
Long-term portion of lease obligations	131	2,645
	12,267	15,030

3. Discontinued operations

In May 2017, the Company entered into an Asset Purchase Agreement and completed the sale of substantially all of the assets comprising the U.S. segment.

As at June 30, 2019, the liabilities retained by the Company are $954 [December 31, 2018 – $1,223] recorded in accounts payable and accrued liabilities and $507 [December 31, 2018 – $1,031] recorded in contract liability.

4. Credit facility

In November 2017, the Company entered into a credit agreement with a Canadian lender to extinguish its existing senior secured notes and replace with a credit facility. In connection with the credit agreement, the Company used proceeds of $20,000 to fully extinguish the remaining balance of the senior secured notes. The credit facility has a three-year term, carrying an interest rate of LIBOR plus an applicable margin ranging from 1.5% - 2.5% based on the total debt to EBITDA ratio, as defined in the credit agreement. Principal and interest payments are payable quarterly in arrears. The credit facility also carries an accordion feature that allows for an additional US$10,000 of capacity, subject to customary terms and conditions. The Company is subject to certain financial and non-financial covenants. The credit facility is secured by the assets of the Company. The interest rate applicable in the second quarter was approximately 5.09%.

In May 2018, concurrent with the acquisition of Cardiome, the Company drew $5,000 from its existing credit facility. Net of transaction costs of $108, the amount recorded to the interim consolidated statement of financial position was $4,892. As a result, the scheduled quarterly payments increased from $1,666 to $2,000. There was no corresponding change in the interest rate terms or term of the credit facility. Subsequent to the drawdown, the accordion was reset to $10,000.

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

The following is the continuity of the credit facility from January 1, 2019 to June 30, 2019:

	$
Balance, January 1, 2019	**17,569**
Accrued interest expense	187
Interest paid	(256)
Imputed interest accretion	35
Repayment	(2,000)
Balance, March 31, 2019	**15,535**
Accrued interest expense	202
Interest paid	(202)
Imputed interest accretion	31
Repayment	(2,000)
Balance, June 30, 2019	**13,566**
Current portion	**8,000**
Long-term portion	**5,566**

Derivative financial instrument

In April 2015, the Company issued 600,000 common share purchase warrants to the lender of the senior secured notes with an option for a cashless exercise in which the settlement price caused the conversion ratio to be variable. Accordingly, the warrants are classified as a financial liability. Gains and losses on re-measurement are presented separately in the interim consolidated statements of income and comprehensive income. The exercise price of the warrants is $9.22 [equal to the five day volume-weighted average price on the Toronto Stock Exchange prior to closing, converted to U.S. dollars] and expire seven years from the date of issuance. A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants as at June 30, 2019 and December 31, 2018 were $4 and $19, respectively.

The variables used to compute the fair value as at June 30, 2019 and December 31, 2018 are follows:

	June 30, 2019 $	**December 31, 2018** $
Share price	**1.00**	1.25
Expected life	**2.8 years**	3.2 years
Volatility	**54.8%**	55.2%

5. Impairment of intangible assets

In 2018, the Company re-assessed its efforts to out license its Astion assets acquired in 2015 and decided not to continue to actively pursue partners for Dermadexin and Pruridexin products in this portfolio. Accordingly, the Company wrote off the net book value of these assets in the amount of $1,832 in operating expenses in the interim consolidated statements of income and comprehensive income.

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

6. Lease obligations

In July 2018, the Company entered into an office lease agreement for its corporate operations to replace the previous office lease, which expired on December 31, 2018. The term of the lease is 10 years and three months and commenced on January 1, 2019. Upon adoption of IFRS 16 on January 1, 2019, the Company recorded a lease obligation and corresponding right-of-use asset for $1,612. During the quarter, the final rentable square footage was determined resulting in a reduction of the lease obligation. This was offset by a reimbursement for leasehold improvements from the landlord in the amount of $416. As at June 30, 2019, the undiscounted commitment for the remaining lease term is approximately CDN$3,853.

In 2015, the Company entered into a lease for office space in Charleston, South Carolina for its U.S. operations. The lease commenced on February 22, 2016 and ends on January 31, 2023. Upon adoption of IFRS 16, the Company recorded a lease obligation of $1,282. The undiscounted commitment for the remaining lease term as at June 30, 2019 is approximately $1,437.

The Company also has several vehicle leases, which were accounted for as finance leases prior to the adoption of IFRS 16. These leases expire between December 2021 and January 2022. As at June 30, 2019, the undiscounted commitment for the remaining lease term is approximately CDN$224.

The carrying amounts of the Company's lease obligations and movements during the period were as follows:

	$
Balance, December 31, 2018	212
IFRS 16 adjustment	2,894
Balance, January 1, 2019	**3,106**
Additions	519
Disposals	(139)
Adjustments	(65)
Interest expense	134
Payments	(309)
Foreign exchange	74
Balance, June 30, 2019	**3,320**
Current portion	**436**
Long-term portion	**2,884**

The total expense related to low value leases is $4 and $8 for the three and six months ended June 30, 2019, respectively and is recorded in selling, general and administrative expenses in the interim consolidated statements of income and comprehensive income.

7. Share capital

Authorized share capital

Authorized share capital consists of an unlimited number of preference shares, issuable in series, and an unlimited number of voting common shares, with no par value.

The Company has three stock-based compensation plans: the Stock Option Plan ["SOP"], the Employee and Director Share Purchase Plan ["ESPP"] and the Restricted Share Units and Performance Share Units ["PR Plan"].

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

Full descriptions of the three stock-based compensation plans are included in note 14 “Share Capital” to the Company’s annual consolidated financial statements for the year ended December 31, 2018.

Share purchase plan

The Company's ESPP allows employees and directors to share in the growth of the Company through share ownership. Through the ESPP, employees and directors may contribute amounts to purchase shares of the Company at a 15% discount from the prevailing trading price. Plan members must hold their shares for a period of at least six months before they can be sold. During the three months ended June 30, 2019, 21,960 shares were issued under the ESPP at weighted average trading price of CDN$1.25 [three months ended June 30, 2018 – 11,587]. Included in share-based compensation expense is $3 [three months ended June 30, 2018 – $5], which is the discount on the shares issued during the period.

During the six months ended June 30, 2019, 47,824 shares were issued under the ESPP at weighted average trading price of CDN$1.60 [six months ended June 30, 2018 – 20,762]. Included in share-based compensation expense is $9 [six months ended June 30, 2018 – $9], which is the discount on the shares issued during the period.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2019 to June 30, 2019:

	Number of options [000s]	Weighted average exercise price [CDN $]
Balance, January 1, 2019	**1,086**	**4.27**
Granted during the period	405	1.48
Exercised during the period	—	—
Forfeited/expired during the period	(376)	3.47
Balance, June 30, 2019	**1,115**	**3.41**

As at June 30, 2019, 342,129 options were fully vested and exercisable [June 30, 2018 – 144,022].

During the first quarter, the Company granted 405,183 stock options under the SOP. The options vest over a four-year period from the grant date, at a rate of 25% per year and expire seven years from the day of grant. The expected volatility is based on the Company’s historical volatility over a comparable period based on expected life. There is no expected dividend. The exercise price and Black Scholes assumptions are as follows:

Grant date	Number granted	Exercise price [CDN$]	Black Scholes value [CDN$]	Risk-free interest rate	Expected life	Expected volatility
March 21, 2019	405,183	1.48	$0.69	1.79%	4.9 years	53.2%

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

The following information relates to stock options that were outstanding as at June 30, 2019:

Range of exercise prices [CDN $]	Number of options [000s]	Weighted average remaining contractual life [years]	Weighted average exercise price [CDN $]
1.05 – 2.99	348	6.5	1.74
3.00 – 4.99	406	5.7	3.55
5.00 – 13.88	361	5.6	5.68
	1,115	5.5	4.78

The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options. During the three months ended June 30, 2019, no stock options were exercised [three months ended June 30, 2018 – nil]. The total cash consideration received by the Company for stock option exercised during the three months ended June 30, 2019 was nil [three months ended June 30, 2018 – nil]. The total stock option expense for the three months ended June 30, 2019 is $16 [three months ended June 30, 2018 – $144 expense].

During the six months ended June 30, 2019, no stock options were exercised [six months ended June 30, 2018 – 375 stock options in exchange for 375 common shares]. The total cash consideration received by the Company for stock option exercised for the six months ended June 30, 2019 was nil [six months ended June 30, 2018 – $1]. The total stock option expense for the six months ended June 30, 2019 is $7 [six months ended June 30, 2018 – $228 expense].

Restricted Share Unit ["RSU"] and Performance Share Unit ["PSU"] Plan

On May 13, 2015, the Company adopted RSU and PSU plans. RSUs and PSUs are notional share units exchangeable for common shares of the Company. RSUs are granted to all employees and directors of the Company and PSUs are granted to certain executives. RSUs granted to employees vest annually over three or four years and RSUs granted to directors vest over a one year period.

In 2017, 63,282 PSUs were granted to key management personnel that vest October 2020 upon the achievement of certain market based performance goals, however, if not achieved the performance date extends to October 2021. If certain targets are achieved by October 2020, up to 5 times the number of PSUs granted will be awarded, the award is reduced by 50% if performance period extends to October 2021. Each PSU can be exchanged for an equal number of common shares. The determination of the number of common shares that will ultimately vest was based on weighted average probabilities.

A summary of the RSUs and PSUs granted and outstanding as at June 30, 2019 is as follows:

	RSUs number of units [000s]	PSUs number of units [000s]
Balance, January 1, 2019	**213**	**55**
Granted during the period	181	—
Vested during the period	(65)	—
Forfeited/cancelled during the period	(104)	(16)
Balance, June 30, 2019	**225**	**39**

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

The total expense for RSUs and PSUs for the three months ended June 30, 2019 is $18 [three months ended June 30, 2018 – $98]. The total expense for the six months ended June 30, 2019 is $53 [six months ended June 30, 2018 – $166].

8. Revenue

The Company earns licensing revenue from both royalties and product sales to its partners, the breakdown is as follows:

	Three months ended June 30, 2019 $	Three months ended June 30, 2018 $	Six months ended June 30, 2019 $	Six months ended June 30, 2018 $
Licensing revenue				
Royalty revenue	**2,817**	4,427	**5,832**	6,583
Licensing product sales	**709**	814	**1,025**	1,418
	3,526	5,241	**6,857**	8,001

9. Expenses by nature

The interim consolidated statements of income and comprehensive income include the following expenses by nature:

	Three months ended June 30, 2019 $	Three months ended June 30, 2018 $	Six months ended June 30, 2019 $	Six months ended June 30, 2018 $
Employee salaries and benefits				
Salaries, bonuses and benefits	**856**	941	**2,316**	2,012
Share-based compensation	**37**	245	**69**	403
Termination benefits	**630**	—	**630**	—
	1,523	1,186	**3,015**	2,415

For the three and six months ended June 30, 2019 and June 30, 2018, all employee salaries and benefits are recorded in selling, general and administrative expenses. Termination benefits are recorded in restructuring costs.

Notes to interim condensed consolidated financial statements

[in thousands of United States dollars, except per share amounts – unaudited]

10. Compensation of key management

Key management includes directors and executives of the Company. The compensation paid or payable to key management for services is shown below:

	Three months ended June 30, 2019 $	Three months ended June 30, 2018 $	Six months ended June 30, 2019 $	Six months ended June 30, 2018 $
Salaries, bonuses and benefits	**283**	240	**589**	532
Share-based compensation	**58**	110	**32**	191
Directors fees	**68**	70	**129**	126
Termination benefits	**110**	—	**110**	—
	519	420	**860**	849

11. Income per common share

Income per common share is calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended June 30, 2019 was 26,923,492 [three months ended June 30, 2018 – 26,767,803]. The weighted average number of shares outstanding for the six months ended June 30, 2019 was 26,884,457 [for the six months ended June 30, 2018 – 26,749,751].

Diluted income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the three months ended June 30, 2019 was 27,155,909 [three months ended June 30, 2018 – 27,003,385]. The diluted weighted average number of shares outstanding for the six months ended June 30, 2019 was 27,017,573 [for the six months ended June 30, 2018 – 26,886,843].

12. Commitments and contingencies

In the normal course of business, the Company may be the subject of litigation or other potential claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against litigation.

The Company has regulatory and commercial milestone payments of up to $2,750 related to its near-term pipeline products, MOB-015 A101, Trulance and Xydalba that become payable upon achievement. MOB-015 has additional development milestones of $2,300, payable upon completion. As at June 30, 2019, no amounts were accrued for [June 30, 2018 – nil].

Licensing agreements with Galephar

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement [the “Agreement”] with Galephar, a Puerto Rico based pharmaceutical research and manufacturing company. Under the Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER [the “CIP Products”] in various countries. In accordance with the Agreement, the Company retains 50% of all revenue from licensing and distribution arrangements entered into with respect to the CIP Products, with the other 50% due to Galephar. Galephar retains the right to manufacture and supply the CIP Products. With respect to licensing and distribution arrangements, the Company manages the

product supply arrangements with their respective marketing partners and Galephar; product is shipped directly from Galephar to the respective marketing partners. Where the Company has opted to market and sell the CIP Product directly, the Company purchases the finished goods from Galephar directly.

With respect to CIP-ISOTRETINOIN, the Company has entered into licensing and distribution arrangements for the U.S., Mexico and Brazil, while opting to market and sell the product directly in Canada. The Company also has in place, various licensing and distribution arrangements with respect to CIP-FENOFIBRATE in the U.S. and CIP-TRAMADOL ER in Canada, the U.S. and Latin America.

During the three and six months ended June 30, 2019, the Company paid Galephar $754 [three months ended June 30, 2018 – $1,026] and $1,452 [six months ended June 30, 2018 – $2,341], respectively. As at June 30, 2019, the amount in accounts payable and accrued liabilities owed to Galephar were $2,336 [December 31, 2018 – $1,963]. Amounts payable to Galephar are remitted quarterly, after the Company collects from its licensing partners. Accordingly, the Company's accounts receivable has a corresponding balance representing amounts owed by its licensing partners.

13. Acquisition of Cardiome Pharma Corp.

On May 15, 2018, the Company acquired the Canadian business portfolio of Cardiome by acquiring all of the issued and outstanding common shares of Cardiome [the "Acquisition"] pursuant to the terms and conditions of a definitive arrangement agreement [the "Arrangement Agreement"] entered into among Cipher, Cardiome and Correvio Pharma Corp. ["Correvio"] on March 19, 2018. Upon completion of the acquisition, Cardiome became a wholly owned subsidiary of the Company. The Canadian business portfolio acquired by the Company includes commercial and pipeline hospital products administered in the acute care setting. The Company acquired Cardiome as part of its ongoing efforts to diversify its product base.

The total purchase price of CDN$25,500 [$19,922] of which CDN$24,500 [$19,141] was paid in cash on closing and a holdback of CDN$1,000 [$781] is payable in four equal installments quarterly from the date of the agreement. Total transaction costs incurred were $589, which are recorded in selling, general and administrative expenses in the consolidated statements of income and comprehensive income. Total transaction costs incurred were $589, which are recorded in selling, general & administrative expenses in the consolidated statements of income and comprehensive income.

Goodwill represents Cardiome's unrecognized non-capital losses, investment tax credits and scientific research and experimental development ["SR&ED"] expenditures that Cipher intends to use as a result of carrying on the former Cardiome business. The goodwill recognized is expected to be non-deductible for income tax purposes. The purchase price allocation includes a deferred tax liability of $384 in relation to the intangible assets acquired, however a deferred tax asset has been recognized to the same extent.

Intangible assets represent product and licensing rights, where the Company has exclusivity in Canada. An assigned licensing right includes a milestone payment of $1,000 upon launching the product and revenue milestones upon achieving a specified level of sales in a calendar year.

14. Segmented information

The Company operations are categorized into one industry segment, being specialty pharmaceuticals. Prior to the disposal of the U.S. business, the Company managed its operations geographically in Canada and the United States, representing two segments. Following the disposal of the U.S. operations, the Company has one reportable segment.

The Company generated approximately 37% of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.

CORPORATE DIRECTORY

DIRECTORS

Craig Mull
Chair

Arthur Deboeck
Director

Christian Godin
Director

Dr. John Mull
Director

Harold Wolkin
Director

OFFICERS

Craig Mull
Interim Chief Executive Officer

Nadine Jutlah
Interim Chief Financial Officer

SHAREHOLDER INFORMATION

Stock Exchange Listing
The Company's common shares are listed on the Toronto Stock Exchange under the symbol "CPH".

Shareholder Inquiries
Inquiries regarding change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent.

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