

Letter to Shareholders

Dear Shareholder:

Cipher has undergone a significant transformation over the past 12 months. We have clearly and successfully repositioned the company for growth, and we are executing on our new strategy.

A major highlight of the first quarter was the 45% revenue growth from our Canadian commercial business.

As we first disclosed in April, our Q1 2018 revenue was affected by a decrease in licensing revenue from Absorica[®], as a result of lower prescription and shipment levels in the quarter following the completion of our partner's promotional campaign in November 2017. Total revenue was \$4.6 million for Q1 2018, compared to \$8.1 million for Q1 2017. Licensing revenue was \$2.8 million, compared to \$6.9 million for Q1 2017. Absorica prescriptions have stabilized and market share has leveled off to approximately pre-promotion levels. We expect our global licensing business to provide a solid base of high-margin royalty revenue in 2018, which provides non-dilutive financing to support the growth of our Canadian commercial platform.

A major highlight of the first quarter was the 45% revenue growth from our Canadian commercial business. The increase was primarily driven by Epuris[®], our largest product, which continues to perform well, having reached an all-time high in total prescriptions in the quarter. We currently hold greater than 32% market share, compared with 26% for the same period last year. We launched OZANEX[™] in the first quarter and, while it's early, the product has achieved all our launch metrics and generated excellent feedback and high engagement from key dermatologists. Actikerall[®] is also demonstrating healthy growth, achieving 93% year-over-year growth in total prescriptions. This segment of our business has an impressive five-year compounded growth rate of 68% and provides a platform we can continue to build on with highly novel products in multiple therapeutic categories.

In 2017, as part of our transformation plan, we introduced an exciting new growth strategy to assemble a broad portfolio of prescription products that will diversify our business, deliver reliable growth for shareholders and reduce our revenue concentration in the Absorica royalty stream. We redoubled our efforts in business development—and the results to date are outstanding.

During the first quarter, we announced key transactions that we expect will add six products to our Canadian commercial portfolio in 2018 and 2019, providing additional revenue diversification, growth avenues in new therapeutic categories, and near-term catalysts.

Cipher's product pipeline has been transformed with multiple late-stage assets that have very near-term commercial potential.

- In February 2018, we acquired the exclusive Canadian rights to TRULANCE[®], an FDA-approved once-daily tablet for adults with chronic idiopathic constipation and irritable bowel syndrome with constipation. This transaction brings a high value, new and differentiated GI product into our Canadian portfolio targeting attractive markets where there are significant unmet needs. We expect to file a New Drug Submission (NDS) with Health Canada in the second half of 2018.
- In March 2018, we announced an agreement to acquire the Canadian business portfolio of Cardiome Pharma Corp., which includes two commercial products (Brinavess[®] and Aggrastat[®]) and two late-stage pipeline products (Xydalba[™] and Trevynt[®]) used in the hospital vertical. This deal is an exciting step for Cipher and brings multiple value components to our organization, notably an attractive Acute Care portfolio, with revenue, growth programs and near-term launch opportunities. We were pleased to close this transaction subsequent to quarter end.
- In April 2018, we acquired the exclusive Canadian rights to A-101 40%, a topical solution indicated for the treatment of raised seborrheic keratoses. A-101 40% was approved by the FDA in December 2017. This is another highly novel and differentiated product for our Canadian portfolio. We plan to file the NDS with Health Canada in the second half of 2018.

With our recent transaction activity, Cipher's product pipeline has been transformed with multiple late-stage assets that have very near-term commercial potential. In summary, we have significant opportunity to enhance shareholder value, and our team remains focused on executing our plan. Specifically, our focus is on:

- Driving organic growth in our Canadian commercial business;
- Achieving key transaction milestones; and
- Building on our business development momentum and increasing our investment to sustain deal flow and transaction activity.

Lastly, I would like to thank our shareholders for their ongoing support and interest. These are exciting times for Cipher and we look forward to reporting on our progress against these catalysts and milestones through the balance of 2018.

Sincerely,

“Signed”

Robert Tessarolo

President and Chief Executive Officer

May 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2018

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 months ended March 31, 2018. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 Annual Financial Statements and Annual Information Form for the year ended December 31, 2017, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ("MD&A") are as at May 9, 2018. 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 certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and other provincial securities law in Canada and U.S. 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 proposed arrangement with Cardiome Pharma Corp. ("Cardiome") pursuant to which Cipher will acquire the Canadian business portfolio of Cardiome, including statements in respect of the anticipated strategic and/or financial benefits of the arrangement, anticipated regulatory approvals or products and the timing thereof, the ability of the parties to satisfy the closing conditions of the arrangement, the anticipated funding for the transaction, the receipt of necessary regulatory and third party approvals and the anticipated timing of completion of the arrangement. 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 in-licensing, 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; 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; 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; current uncertainty surrounding health care regulation in the United States; 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; 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; 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 effects of our delisting from the NASDAQ Global Market (the "NASDAQ") and deregistration of our Common Shares under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"); 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; certain adverse tax rules applicable to U.S. holders of our Common Shares if we are a passive foreign investment company for U.S. federal income tax purposes; 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; our debt obligations will have priority over the Common Shares in the event of a liquidation, dissolution or winding up; and risks associated with the arrangement with Cardiome, including, among others, the failure to satisfy closing conditions and the absence of material adverse changes or other events which may give the parties a basis on which to terminate the arrangement agreement

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 our Annual Information Form and in our Management's Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2017, 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 is 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-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.

On May 1, 2017, the Company, through its wholly owned subsidiary Cipher Pharmaceuticals US LLC ("Cipher U.S.") sold substantially all of the assets of its U.S. segment. The Company no longer directly markets products in the U.S.

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 on the Company's strategy is to:

- Acquire or in-license prescription medicines for the Canadian market;
- Acquire businesses with commercial products, proven capabilities or where substantial synergies are available;
- 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.

The Company is actively assessing and sourcing opportunities that would build on the strengths of the organization, including a scalable commercial infrastructure in Canada. The execution of any transaction is contingent on the Company being able to negotiate acceptable terms and securing the necessary financing.

Significant Transactions

2018

TRULANCE® ACQUISITION

On February 27, 2018, the Company acquired the exclusive Canadian rights to to develop, market, distribute and sell TRULANCE (plecanatide) from Synergy Pharmaceuticals Inc. 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 plans on filing a New Drug Submission ("NDS") with Health Canada in the second half of 2018. 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 ACQUISITION

On April 5, 2018, the Company acquired the exclusive Canadian rights from Aclaris Therapeutics, Inc. ("Aclaris") to distribute and commercialize A-101. A-101 is an FDA-approved topical product indicated for the treatment of raised seborrheic keratoses (SKs), which are commonly occurring non-cancerous skin growths that affect more than 9 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 commonly used approaches for SKs are surgical procedures such as cryosurgery, which can cause discomfort, cosmetic imperfections, and require wound management. 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, as well as royalties from net product sales in Canada.

CARDIOME TRANSACTION

On March 19, 2018, the Company entered into a definitive arrangement agreement with Cardiome pursuant to which Cipher will acquire the Canadian business portfolio of Cardiome. The proposed transaction will be completed pursuant to the acquisition by Cipher of all of the outstanding shares of Cardiome, following a restructuring of Cardiome pursuant to a statutory plan of arrangement under the Canada Business Corporations Act. Pursuant to the arrangement, Cardiome shareholders will receive common shares, on a one-for-one ratio, of a newly created Canadian entity named Correvio Pharma Corp. ("Correvio"). Cipher will acquire all of the outstanding common shares of Cardiome, which will then be 100% owned by Correvio and hold only the Canadian business portfolio, for cash consideration of CDN\$25.5 million. Cipher expects to finance this acquisition with a combination of cash and new debt.

The Canadian business portfolio to be acquired by Cipher includes 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®, may receive a regulatory approval decision in Canada as early as the end of 2018. A Canadian regulatory filing for Trevyent is planned in 2019.

Under the terms of the arrangement agreement, Cipher will also have a right of first refusal, for a limited period following closing, to license from Correvio the Canadian rights of any pharmaceutical product that it (or its affiliates) licenses in the future for additional consideration to Correvio.

The proposed arrangement was approved by the requisite majority of shareholders of Cardiome at Cardiome's annual and special meeting held on May 9, 2018. In addition to the approvals required from shareholders of Cardiome and the Supreme Court of British Columbia, the arrangement is also subject to applicable regulatory approvals, including Nasdaq and TSX approval, and the satisfaction of certain other closing conditions customary for a transaction of this nature. The definitive arrangement agreement includes customary deal protections, including fiduciary-out provisions, non-solicitation covenants, and the right to match any superior

proposals. Additionally, a termination fee of CDN\$2.5 million is payable by Cardiome to Cipher in certain circumstances, and a reverse termination fee of CDN\$2.5 million is payable by Cipher to Cardiome in certain circumstances, if the proposed arrangement is not completed.

2017

U.S. ASSET SALE

On May 1, 2017, the Company sold substantially all of the assets of Cipher US (formerly known as Innocutis Holdings LLC or “Innocutis”). Under the terms of the asset purchase agreement (the “U.S. APA”), the Company received consideration of \$13.6 million, subject to certain working capital adjustments and the transfer of certain liabilities as set out in the U.S. APA. The Company retained responsibility for certain liabilities and commitments related to the assets sold. The U.S. APA also included a potential regulatory milestone of up to \$0.75 million payable to the Company if certain predefined conditions were achieved and included a hold back of \$1.7 million which will be settled 18 months from the date of closing. On closing, the Company received \$7.6 million in cash. In the fourth quarter of 2017, the regulatory milestone was achieved and the Company received an additional \$0.7, net of administrative costs. The total cash consideration received to date is \$9.3 million including the working capital adjustment in the third quarter of 2017.

Prior to the Cipher U.S. asset sale, the Company operated two distinct business operations: Canada and the United States. Subsequent to the sale, the Company now operates one segment.

SENIOR SECURED NOTES

In April 2015, Cipher closed on a private offering of up to \$100 million in aggregate principal amount of Senior Secured Notes (the “Notes”) due in 2020, provided by investment funds managed by Athyrium Capital Management (together, “Athyrium”) pursuant to the original Share Purchase Agreement (the “Original SPA”). The Company received an initial drawdown of \$40.0 million, which was used to fund the majority of the purchase price for Innocutis. The remaining balance of the Notes (\$60.0 million) was intended to finance future acquisitions and was available to Cipher up until June 30, 2016 at which time the balance of the Notes expired. The Notes bore interest at a fixed rate of 10.25% per annum, payable quarterly in arrears on the last day of each quarter, and were set to mature in five years, unless repurchased earlier. The Notes were interest-only and were secured by assets of the Company and its subsidiaries, subject to certain exceptions. Upon repayment of the principal in part or in full, a 5% borrowing fee was assessable and payable. The Company had the option to repay the Notes in part or in full prior to the maturity date subject to a prepayment premium that declined over time. If the Company prepaid the Notes from the proceeds received from the disposition of assets, a prepayment premium would be applied. The Notes had certain restrictive covenants, including those related to quarterly consolidated net revenue, minimum cash balance and consolidated leverage ratio. Under the terms of a fifth amendment to the Original SPA in December 2016, the minimum sales covenant for the fourth quarter of fiscal year 2016 was decreased to \$8.0 million from \$10.0 million and the Company agreed to repay its debt obligations using the proceeds received from dispositions of assets.

On March 31, 2017, the Company entered into its sixth amendment to the Securities Purchase Agreement (the “Amendment”) with its lender to amend the terms of the Notes under the Original SPA, dated April 13, 2015. In connection with the Amendment, the Company agreed to prepay \$20.0 million of the outstanding Notes balance on April 5, 2017. The Amendment was accounted for as an extinguishment as the terms of the amended agreement were substantially different from the Original SPA. Therefore, the unamortized costs related to the Notes were accelerated and recognized as part of the loss on extinguishment. In addition, on April 5, 2017 the Company paid the 5% borrowing fee, the 5% prepayment penalty and an amendment fee (together, the “Financing fees”), which have been recognized as part of the loss on extinguishment. In consideration for the prepayment, the lender waived the requirement that the net cash proceeds from the sale of the U.S. assets be used to prepay the Notes, modified the financial covenants and removed its security interest on the assets of Cipher U.S. On November 3, 2017, the Company repaid the Notes in full including a prepayment penalty of \$1.0 million and a borrowing fee of \$1.0 million.

CREDIT FACILITY

On November 3, 2017, the Company entered into a credit agreement, with a Canadian lender to extinguish its existing Notes and replace with a credit facility. In connection with the credit agreement, the Company used the proceeds of \$20.0 million to fully extinguish the remaining balance of the 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 facility also carries an accordion feature that allows for an additional US\$10.0 million of capacity, subject to customary terms and conditions. The Company will be subject to certain financial and non-financial covenants, including total debt to EBITDA ratio, minimum fixed charge coverage ratio and minimum shareholders’ equity as defined per the credit agreement. The credit facility is secured by the assets of the Company. The total transaction costs incurred were \$0.2 million.

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 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 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.

In 2016, Galephar entered into an agreement with another party (the "Galephar Assignee") to assign certain rights relating to CIP-ISOTRETINOIN in the U.S. market. The Company consented to this agreement, agreeing to remit revenue on the same terms as the Galephar Agreement from licensing and distribution within the U.S. for CIP-ISOTRETINOIN directly to the Galephar Assignee.

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 of this relationship with the Company, Galephar was determined to be 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 Q4 2012 under the trade name Epuris and Cipher launched the product in Canada in June 2013.

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 revenues from product sales in Canada. Ferrer will manufacture OZANEX and deliver finished product to Cipher. The term of the agreement is 12 years from the date of launch, with a two year automatic renewal.

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. 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 is estimated to be over CDN \$38.0 million according to IMS.

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 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.

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 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 10 years, which commenced in March 2015 with automatic annual renewals. The Company launched Vaniqa in the Canadian market in June 2015.

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 Biochimique SA (“IBSA”). The Beteflam Patch is expected to provide distinct advantages over existing treatment options, particularly for patients who suffer from plaque psoriasis in hard to treat areas such as knees and elbows. The efficacy and safety of the product has been established in three successful European phase III trials and one successful phase IV trial conducted by IBSA. The Beteflam Patch is currently marketed in several European countries and was launched in Canada in April 2016.

Under the terms of the agreement with IBSA, IBSA supplies the finished product to Cipher and is eligible for certain milestones based on commercial and regulatory targets. The term of the agreement is for ten years, which commenced in August 2012 with an automatic renewal for an additional five year period.

Licensed Products

CIP-ISOTRETINOIN

United States - Absorica®

In 2012, Cipher’s U.S. distribution partner Ranbaxy Laboratories Inc. (“Ranbaxy”), a Sun Pharma Company, launched CIP-ISOTRETINOIN under the trade name Absorica®. According to IMS Health (“IMS”), the U.S. isotretinoin market was over \$710 million in 2017.

Absorica is currently protected by five issued patents which are Orange Book listed and expire in March 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, Ranbaxy received a Paragraph IV Certification Notice of filing from Actavis of an abbreviated new drug application (“ANDA”) to the Food and Drug Administration (“FDA”) for a generic version of Absorica (isotretinoin capsules). A Paragraph IV Certification Notice is when the sponsor company of the ANDA believes that it is not infringing the patent and/or the patent is not valid. A patent infringement lawsuit against Actavis was filed by Ranbaxy, 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 Ranbaxy and Galephar, entered into a settlement agreement with Actavis that dismissed the patent litigation suit. As part of the settlement agreement, Cipher, Ranbaxy 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 patents in September 2021) or earlier under certain circumstances.

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

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 Ciper 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, Ciper received an upfront payment and may be eligible for additional pre-commercial milestone payments. Ciper 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") providing for exclusive rights to market, sell and distribute isotretinoin products in Mexico. Under the terms of the agreement with Italmex, Ciper is eligible for regulatory and commercial milestone payments. Ciper will supply the product to Italmex and product manufacturing will be fulfilled by Ciper'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 currently not 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". Ciper's U.S. marketing and distribution partner for Lipofen is Kowa Pharmaceuticals America, Inc. ("Kowa").

According to IMS, the hyperlipidemia market in the U.S. was approximately \$6 billion in 2017 and is made up of three primary groups of drugs: statins, fibrates and the prescription DHA/EPA (omega 3) market. The market for existing fenofibrate formulations in the U.S. exceeded \$468 million in 2017 compared to \$630 million in 2016.

Lipofen was launched in the U.S. market in 2007. In 2014, Ciper 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.

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, Ciper 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 IMS, the U.S. market in 2017 for extended release formulations of tramadol exceeded \$48 million, which represents approximately 49% 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 2016, the FDA required a new black box warning for tramadol products on the risks of addiction, abuse, misuse, life-threatening respiratory depression and interactions with central nervous system depressants including alcohol. In 2017, the FDA requested further class/labelling requirements to the black box warning with respect to the pediatric population.

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 reviewing the response from the FDA with its advisors to determine the path forward.

In August 2017, the Company received a warning letter issued by the Office of Prescription Drug Promotion of the FDA relating to the professional detail aids for ConZip. The warning letter was addressed to the Company as the New Drug Applicant holder. The Company's licensing partner, Vertical holds the exclusive U.S. license to market, sell and distribute ConZip. As the exclusive commercial distributor of ConZip in the U.S., Vertical is responsible for preparing and approving all marketing and promotional materials. Vertical

informed CIPHER that it has taken corrective actions and commenced a corrective action communication to healthcare professionals. The FDA has informed CIPHER that all issues raised in the warning letter have been addressed.

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 REMS program and the Company is working with the consortium to review the requirements and the path forward.

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. 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 IMS, the Canadian market for extended-release tramadol was approximately CDN\$25.0 million in 2017.

Health Canada has required market authorization holders of tramadol products to conduct an abuse potential observational study. CIPHER is part of the consortium of Canadian tramadol manufacturers overseeing and funding this study. The study will commence upon determination of the consortium and the total cost estimate is approximately \$2.0 million which will be shared by the consortium.

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.

Product Pipeline

The Company continues to pursue the acquisition or in-licensing of new early to late-stage to commercial-stage product candidates.

CF101

In 2015, CIPHER in-licensed 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.

Can-Fite 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 final 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, Can-Fite completed a phase IIb study for CF101 for active rheumatoid arthritis (“RA”). Can-Fite is commencing two phase III programs, one for RA and one for psoriasis. Can-Fite is enrolling patients into the phase III RA program and expects to start patient enrolment in the psoriasis phase III program in the second quarter of 2018. The timeline to regulatory submissions to Health Canada will be determined by the successful completion of these registration clinical trial programs. CIPHER is not responsible for any of these development costs.

Approximately 500,000 people in Canada receive treatment for psoriasis. 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.

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

In May 2016, CIPHER licensed from Dalhousie University the worldwide rights to develop, market and sell an investigational tattoo removal cream. 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 upon execution of the agreement and the agreement contains milestones of up to CDN\$3.6 million based on future regulatory and commercial sales milestones, as well as royalties on commercial sales.

ASF-1096

Cipher has an orphan drug indication in the European Union for ASF-1096, a product candidate in the European market that the Company believes has promise as a treatment for discoid lupus erythematosus, a highly disfiguring rare disease with no current cure, as well as other potential rare conditions. 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 a royalty on net sales.

DERMADEXIN™ AND, PRURIDEXIN™

In 2015, Cipher acquired the worldwide rights to three products from Astion Pharma ("Astion"), a Denmark-based specialty pharmaceutical company. The three products are focused on inflammatory dermatological diseases: Dermadexin, Pruridexin, and ASF-1096. Dermadexin and Pruridexin target common, chronic conditions that the Company believes are insufficiently addressed today. The terms of the agreement with Astion included an upfront payment of \$6.0 million. The agreement includes approximately \$34.1 million in additional payments contingent upon clinical milestones, regulatory approvals, commercialization and sales milestones in both the U.S. and other regions.

In Q3 2015, Cipher received an Acceptance Review Notification for its 510(k) submissions for both Dermadexin and Pruridexin to the FDA. The notification confirmed that the submission contained all of the necessary elements and information needed to proceed with the substantive review. The FDA put the review on hold due to the uncertainty of the functions of the ingredients. The FDA requested that Cipher submit a "Request for Determination" ("RFD") to the Office of Combination Products to determine whether the products are considered drugs or devices. In April 2016, Cipher submitted an informal RFD for Dermadexin and received a non-binding regulatory determination that the product, which contained nicotinamide (a new ingredient not listed in the device database) should be reviewed under the jurisdiction of the Center for Drug Evaluation and Research (CDER).

In July 2017, Cipher submitted a Pre-RFD with additional supporting information. The FDA determination remained the same, the product is a combination product comprised of two components; of a device, paraffin and a drug, pyridine-3-carboxamide and should be assigned to CDER.

In April 2016, Cipher received Health Canada approvals (via Natural and Non-Prescription Health Products Directorate "NNHPD") for DexiDerm SD Cream and DexiDerm AD Cream (also known as Dermadexin and Pruridexin). DexiDerm CD was approved by the NNHPD in August 2016 and DexiDerm Scalp was approved in November 2016.

Helioclin® Dermatitis SD Cream (also known as Dermadexin) was approved in Europe in 2014 and Helioclin® Pruritus SD Cream (also known as Pruridexin) was approved in April 2016, each as a Class III medical device.

The Company has decided not to continue to actively pursue partners or to continue to support the related IP for Dermadexin and Pruridexin. The Company recorded an impairment charge of \$1.8 million during the quarter.

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 Quarterly Information

The interim consolidated statements of loss and comprehensive loss 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. Certain prior period financial information on the consolidated statements of loss and comprehensive loss and the consolidated statements of cash flows have been updated to present the U.S. segment's MD&A and the

accompanying interim condensed consolidated financial statements. This MD&A reflects only the results of continuing operations, unless otherwise noted.

The loss from discontinued operations included in the consolidated statement of loss and comprehensive loss was \$0.3 million for the three months ended March 31, 2018 compared to a loss from discontinued operations of \$1.8 million for the three months ended March 31, 2017.

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

| (IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS) | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|--|--|--------------------------------------|
| | \$ | \$ |
| | | Restated |
| Net revenues | 4.6 | 8.1 |
| Total operating expenses | 5.8 | 3.5 |
| Total other expenses (income) | (0.1) | 6.5 |
| Loss for the period from continuing operations | (1.0) | (1.6) |
| Loss for the period from discontinued operations | (0.2) | (1.8) |
| Loss from continuing operations per share: | | |
| Basic and diluted loss | (0.04) | (0.06) |
| Loss from discontinued operations per share: | | |
| Basic and diluted loss | (0.01) | (0.07) |
| Total assets from continuing operations | 50.3 | 64.4 |
| Total non-current liabilities from continuing operations | 10.7 | 20.0 |

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

- In Q1 2018, the Company recorded an intangible asset impairment charge of \$1.8 million in operating expenses;
- In Q1 2018, the Company incurred costs of \$0.4 million relating to its four transactions reported in operating expenses.

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

Review of Operating Results

REVENUE

The Company adopted IFRS 15, *Revenue from Contracts with Customers* on January 1, 2018 using the full retrospective approach, resulting in a restatement of the 2017 comparative period for licensing revenue.

| (IN THOUSANDS OF U.S. DOLLARS) | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|--------------------------------|--|--------------------------------------|
| | \$ | \$ |
| | | Restated |
| Licensing revenue | 2,760 | 6,850 |
| Product revenue | 1,813 | 1,252 |
| Net revenues | 4,573 | 8,102 |

Total net revenue decreased by \$3.5 million or 44% to \$4.6 million for the three months ended March 31, 2018 compared to \$8.1 million for the three months ended March 31, 2017.

Licensing Revenue

Licensing revenue decreased by \$4.1 million or 60% to \$2.8 million for the three months ended March 31, 2018 compared to \$6.9 million for the three months ended March 31, 2017.

Licensing revenue from Absorica in the U.S. was \$2.1 million for the three months ended March 31, 2018, a decrease of \$3.5 million or 62% compared to \$5.6 million for the three months ended March 31, 2017. The decrease in licensing revenue from Absorica is attributable to a promotional campaign that our partner implemented in March 2017 and ended in November 2017. At the conclusion of the program, market share and prescriptions for Absorica decreased as expected in December 2017 and Q1 2018. Absorica's market share, which peaked at 22% during the campaign ended March 2018 at approximately 12%, comparable to market share levels prior to the promotional campaign.

Licensing revenue from Lipofen and the authorized generic version of Lipofen was \$0.5 million for the three months ended March 31, 2018, a decrease of \$0.7 million compared to revenue of \$1.2 million for the three months ended March 31, 2017. The market for Lipofen is declining.

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 March 31, 2018, remained unchanged from \$0.1 million for the three months ended March 31, 2017.

Product Revenue

Product revenue increased by \$0.6 million or 45% to \$1.8 million for the three months ended March 31, 2018 compared to \$1.3 million for the three months ended March 31, 2017.

Product revenue from Epuris increased to \$1.4 million for the three months ended March 31, 2018 compared to \$1.1 million for the three months ended March 31, 2017. According to IMS, the Canadian market for isotretinoin was CDN\$18.9 million in 2017. Epuris had a prescription market share of over 31% in Canada for the three months ended March 31, 2018 compared to 27% for the three months ended March 31, 2017.

Product revenue from Ozanex, Actikerall, Beteflam and Vaniqa was \$0.4 million for the three months ended March 31, 2018 compared to \$0.1 million for the three months ended March 31, 2017, respectively. The increase is attributable to an increase in sales of Actikerall and the launch of Ozanex in January.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Cost of products sold | 496 | 452 |
| Research and development | 44 | 111 |
| Selling, general and administrative | 3,409 | 2,894 |
| Impairment of intangible assets | 1,832 | - |
| Total operating expenses | 5,781 | 3,457 |

Total operating expenses increased \$2.3 million or 67% to \$5.8 million for the three months ended March 31, 2018 compared to \$3.5 million for the three months ended March 31, 2017. The increase in operating expenses is primarily related to a \$1.8 million impairment charge for Dermadexin and Pruridexin and costs incurred in executing the four transactions during the quarter of \$0.4 million.

Cost of Products Sold

Cost of products sold for the three months ended March 31, 2018 remained relatively unchanged at \$0.5 million compared to the three months ended March 31, 2017. Gross margin on product sales improved to 73% for the three months ended March 31, 2018 compared to 64% for the three months ended March 31, 2017. The gross margin improved from a reduction in the inventory obsolescence provision as certain product sales exceeded the budget to which the provision was originally based upon.

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.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense was \$3.4 million for the three months ended March 31, 2018, an increase of \$0.5 million or 18% compared to \$2.9 million for the three months ended March 31, 2017. The increase in SG&A costs related to transaction costs of \$0.4 million for the acquisitions during the quarter, as well as costs incurred for the launch of Ozanex.

Also included in SG&A is amortization of intangible assets of \$0.2 million for the three months ended March 31, 2018 and March 31, 2017.

Impairment of Intangible Assets

During the first quarter, 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.

OTHER EXPENSES (INCOME)

(IN THOUSANDS OF U.S. DOLLARS)

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|---|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Interest expense | 182 | 1,424 |
| Change in fair value of derivative financial instrument | (321) | (98) |
| Loss on debt extinguishment | - | 5,223 |
| Interest income | (52) | (3) |
| Foreign exchange loss (gain) | 75 | (28) |
| Total other expenses (income) | (116) | 6,518 |

Total other income for the three months ended March 31, 2018 was \$0.1 million compared to an expense of \$6.5 million for the three months ended March 31, 2017. Other income in the current period related to the revaluation of the derivative financial instrument. In the comparative period, other expenses primarily related to the loss on debt extinguishment.

Interest Expense

Interest expense decreased by \$1.2 million or 87% to \$0.2 million for the three months ended March 31, 2018 compared to \$1.4 million for the three months ended March 31, 2017 due to the refinancing of the Company's Notes. Interest expense on the credit facility for the three months ended March 31, 2018 was comprised primarily of interest payments of \$0.1 million. The interest rate applicable in the first quarter of 2018 was 3.19%. The effective interest rate was 3.64%. In the comparative period the stated interest rate on the Notes that were subsequently fully extinguished in the fourth quarter of 2017 was 10.25%.

Change in Fair Value of Derivative Financial Instrument

The gain from the change in the fair value of the derivative financial instrument was \$0.3 million for the three months ended March 31, 2018 compared to a gain of \$0.1 million for the three months ended March 31, 2017.

Loss on Debt Extinguishment

In Q1 2017, the loss on the debt extinguishment was the difference between the carrying value of the original senior secured notes and the fair value on the date of the partial extinguishment, which includes the prepayment fee of \$1.0 million, a borrowing fee of \$1.0 million and amendment fee of \$0.5 million (see "Significant Transactions" – 2017 Senior Secured Notes).

Interest Income

Interest income for the three months ended March 31, 2018 has increased from improved interest rates from changing financial institutions pursuant to the terms of our credit agreement.

Foreign Exchange

The Company experienced a de minimus foreign exchange loss for the three months ended March 31, 2018 compared to a de minimus foreign exchange gain for the three months ended March 31, 2017. 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 recovery for the three months ended March 31, 2018 was \$0.1 million compared to a recovery of \$0.3 million for the three months ended March 31, 2017.

At each balance sheet date, 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 March 31, 2018, the Company has recognized a deferred tax asset on the balance sheet of \$3.6 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 SHARE

| (IN THOUSANDS OF U.S. DOLLARS) | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|---|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| | | Restated |
| Loss for the period from continuing operations | (951) | (1,592) |
| Basic and diluted loss per share from continuing operations | (0.04) | (0.06) |
| Loss for the period from discontinued operations | (250) | (1,769) |
| Basic and diluted loss per share from discontinued operations | (0.01) | (0.07) |
| Loss and comprehensive loss for the period | (1,201) | (3,361) |
| Basic and diluted loss per share | (0.05) | (0.13) |

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated taking into account dilutive instruments that are outstanding. For the three months ended March 31, 2018, the computation of diluted earnings per share equals the basic earnings per share due to the anti-dilutive effect of the share-based compensation.

Loss from continuing operations per share on a basic and diluted basis for the three months ended March 31, 2018 was \$0.04 compared to loss per share on a basic and diluted basis of \$0.06 for the three months ended March 31, 2017.

The weighted average number of shares outstanding for the three months ended March 31, 2018 was 26,731,498 (three months ended March 31, 2017 – 26,388,513).

The dilutive weighted average number of shares outstanding for the three months ended March 31, 2018 was 27,031,194 (three months ended March 31, 2017 – 26,906,098).

ADJUSTED EBITDA

EBITDA is a non-IFRS financial measure. The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, loss on debt extinguishment, 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 March 31, 2018 was \$1.0 million, a decrease of \$4.2 million or 83% compared to \$5.1 million for the three months ended March 31, 2017.

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

| (IN THOUSANDS OF U.S. DOLLARS) | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|---|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Loss from continuing operations | (951) | (1,592) |
| Add back: | | Restated |
| Depreciation and amortization | 226 | 242 |
| Interest expense, net | 130 | 1,421 |
| Income taxes | (141) | (281) |
| EBITDA | (736) | (210) |
| Change in fair value of derivative financial instrument | (321) | (98) |
| Loss from the translation of Canadian cash balances | 41 | 9 |
| Loss of debt extinguishment | - | 5,223 |
| Impairment of intangible assets | 1,832 | - |
| Share-based compensation | 156 | 209 |
| Adjusted EBITDA | 972 | 5,133 |

Liquidity and Capital Resources

| (IN THOUSANDS OF U.S. DOLLARS) | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| Cash provided by operating activities | 8,042 | 1,143 |
| Cash used in investing activities | (5,000) | - |
| Cash used in financing activities | (1,791) | (769) |
| Cash used in discontinued operations | (1,456) | (1,151) |
| Net change in cash | (205) | (777) |
| Impact of foreign exchange on cash | (41) | (9) |
| Cash, beginning of period | 28,241 | 34,486 |
| Cash, end of period | 27,995 | 33,700 |

Cash

As at March 31, 2018, the Company had cash of \$28.0 million compared to \$28.2 million as at December 31, 2017.

Operating Activities

Cash provided by operating activities was \$8.0 million for the three months ended March 31, 2018 compared to \$1.1 million for the three months ended March 31, 2017. The increase in cash provided by operating activities reflects a recovery of \$7.0 million of working capital compared to a \$1.5 million investment in working capital in the comparative period. Cash provided by operations, excluding working capital was \$1.0 million for the three months ended March 31, 2018 compared to \$2.6 million for the three months ended March 31, 2017. 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 for the three months ended March 31, 2018 is related to the acquisition of the Trulance license (see "Significant Transactions" – 2018).

Financing Activities

Cash used in financing activities was \$1.8 million for the three months ended March 31, 2018 compared to \$0.8 million for the three months ended March 31, 2017. The increase in cash used in financing activities during the quarter related to the \$1.7 million principal repayment on the credit facility offset by the lower interest costs.

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.

As at March 31, 2018, the Company has finance lease contractual obligations on its fleet and operating leases for the Company's two office locations. The fleet leases expire between June 2020 and August 2020. The lease for the Company's Canadian premises expires at the end of December 2018 and the lease for the Company's U.S. premises expires in January 2023.

Financial Instruments

As at March 31, 2018, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statements of loss and comprehensive 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 measured at amortized cost. At March 31, 2018, the fair value of the credit facility is approximately \$16.5 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 and interest rate 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 and market 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 and U.S. chartered banks. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts.

The Company has concentration risk, as approximately 86.2% of total sales came from four customers and 83.7% of total accounts receivable came 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.

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.

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, and an unlimited number of voting common shares. As at March 31, 2018, the Company had 26,762,117 common shares issued and outstanding compared to 26,507,661 at March 31, 2017. Subsequent to quarter end, 3,076 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 26,765,193 as of the date of this MD&A.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than operating leases for its office facilities.

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.

Future Accounting Standards

IFRS 16, Leases: In January 2016, the IASB published a new standard, IFRS 16. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has determined that all its leases will be recorded on the consolidated statements of financial position.

International Financial Reporting Interpretations Committee (IFRIC), Uncertainty over Income Tax Treatments (IFRIC 23): In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments, with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the Company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

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 March 31, 2018 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 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 March 31, 2018.

Selected Quarterly Information

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)

| | Mar 31, 2018 |
|--|---------------------|
| | \$ |
| Net revenue | 4.6 |
| Net income (loss) for the period | (1.0) |
| Basic income (loss) per common share | (0.04) |
| Diluted income (loss) per common share | (0.04) |

| | Dec 31, 2017 | Sept 30, 2017 | June 30, 2017 | Mar 31, 2017 |
|--|--------------|---------------|---------------|--------------|
| | \$ | \$ | \$ | \$ |
| Net revenue | 12.1 | 10.0 | 9.9 | 8.1 |
| Net income (loss) for the period | 3.9 | 3.9 | 4.4 | (1.6) |
| Basic income (loss) per common share | 0.14 | 0.15 | 0.17 | (0.06) |
| Diluted income (loss) per common share | 0.14 | 0.15 | 0.17 | (0.06) |

| | Dec 31, 2016 | Sept 30, 2016 | June 30, 2016 | Mar 31, 2016 |
|--|--------------|---------------|---------------|--------------|
| | \$ | \$ | \$ | \$ |
| Net revenue | 6.5 | 7.8 | 8.5 | 6.9 |
| Net income (loss) for the period | (0.1) | 2.2 | 0.2 | 1.8 |
| Basic income (loss) per common share | (0.00) | 0.08 | 0.01 | 0.07 |
| Diluted income (loss) per common share | (0.00) | 0.08 | 0.01 | 0.07 |

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Cipher Pharmaceuticals Inc.
Interim Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2018
Unaudited

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Financial Position

As at March 31, 2018, December 31, 2017 and January 1, 2017
(in thousands of United States dollars - unaudited)

| | | March 31, 2018 | December 31, 2017 | January 1, 2017 |
|---|------|-------------------|----------------------|--------------------|
| | Note | \$ | \$ | \$ |
| ASSETS | | | | |
| Current assets | | | | |
| Cash | | 27,995 | 28,241 | 34,486 |
| Accounts receivable | | 6,303 | 21,906 | 14,644 |
| Inventory | | 923 | 488 | 1,272 |
| Prepaid expenses and other assets | | 1,182 | 1,519 | 1,767 |
| Other receivable | 3 | 1,700 | 1,700 | - |
| | | 38,103 | 53,854 | 52,169 |
| Property and equipment, net | | 240 | 266 | 790 |
| Intangible assets, net | 5, 6 | 8,384 | 5,400 | 17,582 |
| Deferred tax assets | 11 | 3,579 | 3,488 | 6,687 |
| Total assets | | 50,306 | 63,008 | 77,228 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 3 | 9,457 | 18,705 | 16,003 |
| Contract liability | 3 | 1,212 | 1,651 | 4,769 |
| Current portion of credit facility | 4 | 6,664 | 6,664 | - |
| | | 17,333 | 27,020 | 20,772 |
| Senior secured notes | 4 | - | - | 36,377 |
| Credit facility | 4 | 9,826 | 11,456 | - |
| Derivative financial instrument | 4 | 228 | 549 | 583 |
| Other long term liabilities | 3 | 635 | 680 | 996 |
| Total liabilities | | 28,022 | 39,705 | 58,728 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | | 18,189 | 18,020 | 16,192 |
| Contributed surplus | | 4,728 | 4,715 | 6,024 |
| Accumulated other comprehensive loss | | (9,514) | (9,514) | (9,514) |
| Retained earnings | | 8,881 | 10,082 | 5,798 |
| Total shareholders' equity | | 22,284 | 23,303 | 18,500 |
| Total liabilities and shareholders' equity | | 50,306 | 63,008 | 77,228 |
| Commitments and Contingencies | 13 | | | |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Cipher Pharmaceuticals Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss

Three months ended March 31, 2018 and 2017

(in thousands of United States dollars, except per share data - unaudited)

| | Note | 2018 | 2017 |
|---|------|----------------|--------------------|
| | | \$ | \$ |
| | | | Restated Note 2 |
| Revenues | | | |
| Licensing revenue | 8 | 2,760 | 6,850 |
| Product revenue | | 1,813 | 1,252 |
| Net revenues | | 4,573 | 8,102 |
| Operating expenses | | | |
| Cost of products sold | | 496 | 452 |
| Research and development | | 44 | 111 |
| Selling, general and administrative | 9 | 3,409 | 2,894 |
| Impairment of intangible assets | 6 | 1,832 | - |
| Total operating expenses | | 5,781 | 3,457 |
| Other expenses (income) | | | |
| Interest expense | 4 | 182 | 1,424 |
| Change in fair value of derivative financial instrument | 4 | (321) | (98) |
| Interest income | | (52) | (3) |
| Loss on debt extinguishment | | - | 5,223 |
| Foreign exchange loss (gain) | | 75 | (28) |
| Total other expenses (income) | | (116) | 6,518 |
| Loss before income taxes from continuing operations | | (1,092) | (1,873) |
| Current income tax recovery | 11 | (50) | - |
| Deferred income tax recovery | 11 | (91) | (281) |
| Total income tax recovery | | (141) | (281) |
| Loss and comprehensive loss from continuing operations | | (951) | (1,592) |
| Loss and comprehensive loss from discontinued operations | 3 | (250) | (1,769) |
| Loss and comprehensive loss for the period | | (1,201) | (3,361) |
| Loss from continuing operations per common share | 12 | | |
| Basic | | (0.04) | (0.06) |
| Diluted | | (0.04) | (0.06) |
| Loss from discontinued operations per common share | 12 | | |
| Basic | | (0.01) | (0.07) |
| Diluted | | (0.01) | (0.07) |
| Loss and comprehensive loss per common share | 12 | | |
| Basic | | (0.05) | (0.13) |
| Diluted | | (0.05) | (0.13) |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity

Three month ended March 31, 2018 and 2017
(in thousands of United States dollars - unaudited)

| | Note | Share Capital | Contributed Surplus | Other Comprehensive Loss | Retained Earnings | Total Shareholders' Equity |
|--|------|---------------|---------------------|--------------------------|-------------------|----------------------------|
| | | 000's | \$ | \$ | \$ | \$ |
| Balance, January 1, 2018 | | 26,721 | 18,020 | 4,715 | 10,082 | 23,303 |
| Loss for the period | | - | - | - | (1,201) | (1,201) |
| Exercise of stock options | 7 | 1 | 1 | (1) | - | - |
| Shares issued under the share purchase plan | 7 | 9 | 30 | - | - | 30 |
| Shares issued under the Restricted Share Unit plan | | 31 | 138 | (138) | - | - |
| Share-based compensation expense | 7 | - | - | 152 | - | 152 |
| Balance, March 31, 2018 | | 26,762 | 18,189 | 4,728 | 8,881 | 22,284 |
| Balance, January 1, 2017 | | 26,313 | 16,192 | 6,024 | 5,798 | 18,500 |
| Loss for the period | 2 | - | - | - | (3,361) | (3,361) |
| Exercise of stock options | 7 | 111 | 706 | (469) | - | 237 |
| Shares issued under the share purchase plan | 7 | 11 | 36 | - | - | 36 |
| Shares issued under the Restricted Share Unit plan | | 73 | 377 | (377) | - | - |
| Share-based compensation expense | 7 | - | - | 249 | - | 249 |
| Balance, March 31, 2017 | | 26,508 | 17,311 | 5,427 | 2,437 | 15,661 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Cash Flows

Three months period ended March 31, 2018 and 2017
(in thousands of United States dollars - unaudited)

| | Note | 2018 | 2017 |
|---|------|----------------|----------------|
| | | \$ | \$ |
| Cash provided by (used in) | | | |
| Operating activities | | | |
| Loss for the period from continuing operations | | (951) | (1,592) |
| Items not affecting cash: | | | |
| Depreciation of property and equipment | | 42 | 33 |
| Amortization of intangible assets | | 184 | 209 |
| Impairment of intangible assets | 6 | 1,832 | - |
| Share-based compensation | | 156 | 209 |
| Foreign exchange loss on cash | | 41 | 9 |
| Change in fair value of derivative | | (321) | (98) |
| Loss on debt extinguishment | | - | 2,723 |
| Interest on long term debt | | 182 | 1,424 |
| Deferred income taxes | | (91) | (281) |
| Changes in non-cash operating items: | | | |
| Accounts receivable | | 15,603 | (2,962) |
| Inventory | | (435) | 119 |
| Prepaid expenses and other assets | | 197 | 172 |
| Accounts payable and accrued liabilities | | (8,397) | 1,178 |
| Net cash provided by operating activities | | 8,042 | 1,143 |
| Investing activities | | | |
| Acquisition of intangible assets | 5 | (5,000) | - |
| Net cash used in investing activities | | (5,000) | - |
| Financing activities | | | |
| Interest payments | | (146) | (1,024) |
| Principal repayments | | (1,666) | - |
| Payment of finance lease liability | | (6) | (13) |
| Proceeds from shares issued under the share purchase plan | | 26 | 31 |
| Proceeds from exercise of stock options | | 1 | 237 |
| Net cash used in financing activities | | (1,791) | (769) |
| Cash used in discontinued operations | 3 | (1,456) | (1,151) |
| Decrease in cash | | (205) | (777) |
| Impact of foreign exchange on cash | | (41) | (9) |
| Cash, beginning of period | | 28,241 | 34,486 |
| Cash, end of period | | 27,995 | 33,700 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(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 fulfill 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 2345 Argentia Road, Mississauga, Ontario.

On May 1, 2017, the Company, through its wholly owned subsidiary Cipher Pharmaceuticals US LLC ("Cipher U.S.") sold substantially all of the assets of its U.S. segment. The Company no longer directly markets products in the U.S.

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") 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, 2017, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and are available on SEDAR at www.sedar.com. The interim condensed consolidated financial statements are based on accounting policies as described in the 2017 annual consolidated financial statements except for that effective January 1, 2018, the Company implemented IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*.

The Board of Directors approved these interim condensed consolidated financial statements on May 9, 2018.

Reclassification of comparative period presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations, only classifications of certain operating expenses. Specifically, certain selling, general and administrative ("SG&A") costs have been reclassified to research and development costs to align with expenses associated with the Company's pipeline products. Product distribution costs previously recognized in SG&A, have been reclassified to cost of products sold.

Discontinued operations

The Company reports financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs when the disposal of a component or a group of components of the Company represents a strategic shift that will have major impact on the Company's operations and financial results, and where the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

The results of discontinued operations are excluded from both continuing operations and business segment information in the interim condensed consolidated financial statements and the notes to the interim condensed consolidated financial statements, unless otherwise noted, and are presented net of tax in the statement of loss and comprehensive loss for the current and comparative periods. Refer to Note 3 Discontinued Operations for further information regarding the facts and circumstances which gave rise to the Company's discontinued operations.

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 judgement 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 March 31, 2018, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statements of loss and comprehensive loss and is

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

classified as Level 2 (as defined under IFRS). Cash, accounts receivable, accounts payable and accrued liabilities and other long-term liabilities are measured at amortized cost and their fair values approximate carrying values.

The credit facility is measured at amortized cost. At March 31, 2018, the fair value of the credit facility is approximately \$16,490. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

Changes in accounting policies

IFRS 9, *Financial Instruments* – The Company adopted this standard on January 1, 2018. No adjustment to the comparative period was required. Currently, the Company's financial instruments are cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and its credit facility. With respect to its accounts receivable, historically, the Company's credit losses have been negligible as are past due amounts and therefore no adjustments relating to credit losses were required in the current or comparative period. The Company has adopted the simplified approach to accounting for credit losses.

IFRS 15, *Revenue from Contracts with Customers* – The Company adopted this standard on January 1, 2018 using the full retrospective approach, resulting in a restatement of the 2017 comparative period. No practical expedients have been used.

The impact to the comparative interim consolidated statements of financial position is as follows:

| | Dec 31, 2017 as presented | Adjustment | Dec 31, 2017 restated |
|--|------------------------------|------------|--------------------------|
| | \$ | \$ | \$ |
| Deferred tax asset | 3,610 | (122) | 3,488 |
| Total assets | 63,130 | (122) | 63,008 |
| Liabilities: | | | |
| Current portion of deferred revenue | 177 | (177) | - |
| Deferred revenue | 312 | (312) | - |
| Total liabilities | 40,194 | (489) | 39,705 |
| Retained earnings | 9,715 | 367 | 10,082 |
| Total liabilities and shareholders' equity | 63,130 | (122) | 63,008 |

The impact to the comparative interim consolidated statement of loss and comprehensive loss for the three months ended March 31 is as follows:

| | Mar 31, 2017 as presented | Jan 1, 2017 adjustment | Mar 31, 2017 restated |
|--|------------------------------|---------------------------|--------------------------|
| | \$ | \$ | \$ |
| Licensing revenue | 6,891 | (41) | 6,850 |
| Net revenue | 8,143 | (41) | 8,102 |
| Deferred income tax recovery | (270) | (11) | (281) |
| Loss and comprehensive loss from continuing operations | (1,562) | (30) | (1,592) |
| Loss and comprehensive loss for the period | (3,331) | (30) | (3,361) |

Licensing revenue

Licensing revenue is comprised of upfront payments, pre-commercialization milestones, post-commercialization milestones, royalties and product supply fees. Pre-commercialization milestones, not representing a financing component is deferred and recognized on a straight-line basis over the estimated term that the Company provides services. Post-commercialization milestones, such as sales targets are recognized as revenue when the underlying condition is achieved and is unconditional on any further performance. Otherwise, these milestone payments are recognized as revenue over the remaining term of the underlying agreement or the estimated service term for which the Company maintains contractual obligations. Royalty revenue is recognized in the period in which the Company earns the royalty. Licensing partners report royalty revenue monthly and remit payment within 30 days after each quarter end. Licensing product sales are recognized when the finished products are shipped from Galephar to the Company's licensing partners, at which time control is transferred. Upfront payments, pre-and post-commercialization milestones, royalties and product supply fees represent the Company's 50% share of revenue from agreements with licensing partners, after amounts due to Galephar or other third parties.

Deferred revenue – Deferred revenue represented amounts paid by the Company's licensing partners upon achievement of certain milestones and were amortized over a relevant period. These were determined to be point in time recognition to coincide with the timing of when control was transferred. Therefore, licensing revenue for the three months ended March 31, 2017 was reduced by \$41.

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

Additionally, the current and long-term portion of the deferred revenue on the consolidated statements of financial position were adjusted to opening retained earnings to reflect recognition at the point in time when control was transferred. Accordingly, the Company has restated the consolidated statements of financial position.

Accounting for costs to fulfil a contract – The Company may incur costs to fulfil a contract that are directly related. While there were no such costs incurred in the current period and comparative period, such amounts will be capitalized to prepaids and other assets in the consolidated statements of financial position. The Company has determined that costs to fulfill contracts entered into prior to January 1, 2017 are not significant to the consolidated statements of financial position and statements of loss and comprehensive loss.

Financing component – Agreements entered into with licensing partners often include an upfront fee upon execution of the agreement. If considered significant in the context of the arrangement, these upfront fees are accounted for as a financing component.

Product revenue

Performance obligations for product sales is primarily satisfied upon delivery of product to the Company's customers, however in a few instances it may be upon shipment. The transaction price is based on list prices that are published annually. Revenue is recorded on a net basis, representing the amounts receivable from customers after the deduction for discounts, returns and early payment discounts. The methodology and assumptions used to estimate discounts, returns and early payments discounts are monitored and adjusted in light of contractual and historical information. Invoices are generated at the time of product shipment and are payable in 30 days.

Contract liability – The Company estimates a returns provision upon the sale of its commercial products, which is recorded in contract liability. Commercial products may be returned if damaged, expired, or otherwise in unsalable condition when received by its customers. The largest component of the contract liability is for the return of expired products.

The provision for returns is a complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue. The Company estimates provisions for returns based upon historical experience if applicable, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and adjusts when it believes that actual product returns may differ from established reserves. Given that the Company's launch of three of its five products have occurred within the past 2 years, few products have entered the returns window for expired goods and therefore the Company does not have historical information as a basis for estimating its returns provision.

Accounting standards issued but not yet adopted

IFRS 16, Leases: In January 2016, the IASB published a new standard, IFRS 16. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has determined that all its leases will be recorded on the consolidated statements of financial position.

International Financial Reporting Interpretations Committee (IFRIC), Uncertainty over Income Tax Treatments (IFRIC 23): In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments, with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the Company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

3. DISCONTINUED OPERATIONS

On May 1, 2017, the Company entered into an Asset Purchase Agreement (the "U.S. APA") and completed the sale of substantially all of the assets comprising the U.S. segment. In accordance with the terms of the U.S. APA, the purchase price of \$13,600 was subject to customary working capital adjustments and other transferred liabilities as defined in the U.S. APA. The Company retained responsibility for certain liabilities and commitments. On closing, the Company received \$7,619 in cash.

The terms of the U.S. APA, include a hold back of \$1,700, which will be settled 18 months from the date of closing and an additional regulatory milestone of up to \$750 if certain predefined conditions are achieved. The hold back of \$1,700 is classified as other receivable

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

in the consolidated statements of financial position. In the fourth quarter of 2017, the regulatory milestone was achieved and the Company received an additional \$740, net of administrative costs. The total cash consideration received to date is \$9,339.

The following table summarizes the balances retained by the Company as at March 31, 2018, which are included in the consolidated statements of financial position:

| | \$ |
|--|--------------|
| Accounts payable and accrued liabilities | 1,839 |
| Contract liability | 1,212 |
| Other long-term liabilities | 566 |
| Total | 3,617 |

Accounts payable and accrued liabilities and other long-term liabilities includes provisions for onerous contracts and amounts due to former customers for product returns and vendors. The contract liability reflects future product returns that were retained by the Company.

A reconciliation of the major classes of line items constituting loss from discontinued operations, net of tax, as presented in the consolidated statements of loss and comprehensive loss is as follows:

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|---|------------------------------------|------------------------------------|
| | \$ | \$ |
| Net revenues | (135) | 2,327 |
| Operating expenses | 115 | 4,096 |
| Loss before income taxes | (250) | (1,769) |
| Income taxes | - | - |
| Loss and comprehensive loss from discontinued operations | (250) | (1,769) |

Disclosures with respect to the consolidated statements of cash flows are as follows:

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|---|------------------------------------|------------------------------------|
| | \$ | \$ |
| Net cash flows attributable to: | | |
| Operating activities | (1,456) | (1,143) |
| Investing activities | - | (8) |
| Cash used in discontinued operations | (1,456) | (1,151) |

4. SENIOR SECURED NOTES AND CREDIT FACILITY

On March 31, 2017, the Company entered into its sixth amendment to the Securities Purchase Agreement (the "Amendment") with its lender to amend the terms of the Senior Secured Notes ("Notes") under the original Securities Purchase Agreement (the "Original SPA"), dated April 13, 2015. In connection with the Amendment, the Company prepaid \$20,000 of the outstanding Notes balance on April 5, 2017. The Amendment was accounted for as an extinguishment, as the terms of the amended agreement were substantially different. Therefore, the unamortized costs related to the Notes were accelerated and recognized as part of the loss on extinguishment. In addition, on April 5, 2017, the Company paid the 5% borrowing fee of \$1,000, the 5% prepayment penalty of \$1,000 and an amendment fee of \$500. In consideration for the prepayment, the lender modified the financial covenants and removed its security interest in the U.S. segment assets.

On November 3, 2017, the Company entered into a credit agreement, with a Canadian lender to extinguish its existing Notes and replace with a credit facility. In connection with the credit agreement, the Company used the proceeds of \$20,000 to fully extinguish the remaining balance of the Notes. Pursuant to the Original SPA, the Company paid a prepayment penalty of \$1,000 and a borrowing fee of \$1,000. 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

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

terms and conditions. The Company is subject to certain financial and non-financial covenants, including total debt to EBITDA ratio, minimum fixed charge coverage ratio and minimum shareholders' equity as defined per the credit agreement. The credit facility is secured by the assets of the Company. The interest rate applicable in the first quarter was 3.19%. The effective interest rate was 3.64%.

The following is the continuity of the credit facility from January 1, 2018 to March 31, 2018:

| | \$ |
|--------------------------------|---------------|
| Balance, January 1, 2018 | 18,120 |
| Interest expense | 146 |
| Interest paid | (146) |
| Imputed interest accretion | 36 |
| Repayment | (1,666) |
| Balance, March 31, 2018 | 16,490 |
| Current portion | 6,664 |
| Long term portion | 9,826 |

The following is the continuity of the Notes from January 1, 2017 until extinguishment on November 3, 2017.

| | \$ |
|----------------------------|----------|
| Balance, January 1, 2017 | 36,377 |
| Interest expense | 2,282 |
| Interest paid | (2,282) |
| Prepayment penalty | 1,000 |
| Imputed interest accretion | 1,900 |
| Loss on extinguishment | 5,223 |
| Repayment | (44,500) |
| Balance, December 31, 2017 | - |

Derivative financial instrument

Under the terms of the Original SPA, the Company issued 600,000 common share purchase warrants to the lender 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 consolidated statements of loss and comprehensive loss. 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 March 31, 2018 and December 31, 2017 were \$228 and \$549, respectively.

The variables used to compute the fair value as at March 31, 2018 and December 31, 2017 as follows:

| | Mar 31, 2018 | Dec 31, 2017 |
|---------------|------------------|--------------|
| Share price | \$3.26 | \$3.91 |
| Expected life | 4.0 years | 4.2 years |
| Volatility | 50.5% | 56.4% |

5. INTANGIBLE ASSETS

On February 26, 2018, the Company acquired the Canadian rights to market, distribute and sell Trulance®, a U.S. Food and Drug Administration ("FDA") approved product. In connection with the acquisition, the Company paid an upfront fee of \$5,000 upon execution of the agreement. The transaction includes a regulatory milestone payment of \$750 and royalties on net product sales.

Cipher Pharmaceuticals Inc.**Notes to Interim Condensed Consolidated Financial Statements****March 31, 2018**

(in thousands of United States dollars, except per share amounts - unaudited)

| | Product rights | Licensing and intellectual property rights | Total |
|--|-----------------------|---|---------------|
| Cost | \$ | \$ | \$ |
| Balance, January 1, 2017 | 47,751 | 8,099 | 55,850 |
| Additions | - | 148 | 148 |
| Impairment (note 6) | - | (698) | (698) |
| Disposal of U.S. segment | (41,919) | - | (41,919) |
| Balance, January 1, 2018 | 5,832 | 7,549 | 13,381 |
| Additions | - | 5,000 | 5,000 |
| Impairment (note 6) | - | (2,792) | (2,792) |
| Balance, March 31, 2018 | 5,832 | 9,757 | 15,589 |
| Accumulated amortization and impairment | | | |
| Balance, January 1, 2017 | 36,752 | 1,516 | 38,268 |
| Amortization | 61 | 770 | 831 |
| Impairment (note 6) | - | (137) | (137) |
| Disposal of U.S. segment | (30,981) | - | (30,981) |
| Balance, January 1, 2018 | 5,832 | 2,149 | 7,981 |
| Amortization | - | 184 | 184 |
| Impairment (note 6) | - | (960) | (960) |
| Balance, March 31, 2018 | 5,832 | 1,373 | 7,205 |
| Net book value | | | |
| As at January 1, 2018 | - | 5,400 | 5,400 |
| As at March 31, 2018 | - | 8,384 | 8,384 |

6. IMPAIRMENT OF INTANGIBLE ASSETS

During the first quarter of 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 consolidated statements of loss and comprehensive loss.

In 2017, the Company completed its assessment of the Melanovus oncology assets acquired in 2014 and decided not to continue with this program. The Company provided to the seller a notice of termination in the fourth quarter of 2017 and after completion of the 90-day notice period, the agreement was terminated. Accordingly, the Company wrote off the net book value of these assets in the amount of \$561 in 2017.

7. SHARE CAPITAL**Authorized share capital**

The 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"). Full descriptions of the three stock-based compensation plans are included in Note 13 "Share Capital" to the Company's annual consolidated financial statements for the year ended December 31, 2017.

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

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 March 31, 2018, 9,175 shares were issued under the ESPP (three months ended March 31, 2017 – 10,468). Included in share-based compensation expense is \$4 (three months ended March 31, 2017 – \$5), 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, 2018 to March 31, 2018:

| | Number of options (in 000's) | Weighted average exercise price (CDN\$) |
|-------------------------------------|------------------------------------|---|
| Balance, January 1, 2018 | 603 | 5.80 |
| Granted during the period | 469 | 3.53 |
| Exercised during the period | (1) | 2.32 |
| Forfeited/expired during the period | (21) | 8.19 |
| Balance, March 31, 2018 | 1,050 | 4.81 |

As at March 31, 2018, 148,433 options were fully vested and exercisable (March 31, 2017 – 815,210).

During the quarter, the Company granted 469,468 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 22, 2018 | 469,468 | \$3.53 | \$1.55 | 1.94% | 4.9 years | 48.2% |

The following information relates to stock options that were outstanding as at March 31, 2018:

| Range of exercise prices (CDN\$) | Number of options (in 000's) | Weighted average remaining contractual life (years) | Weighted average exercise price (CDN\$) |
|-------------------------------------|---------------------------------|---|---|
| 1.05 - 4.60 | 484 | 4.9 | 3.47 |
| 4.61 - 6.20 | 462 | 6.7 | 5.25 |
| 6.21 - 13.88 | 104 | 6.4 | 8.39 |
| | 1,050 | 5.8 | 4.74 |

During the quarter, 375 stock options were exercised in exchange for 375 common shares (three months ended March 31, 2017 – 198,502 stock options in exchange for 111,374 common shares). 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. The total cash consideration received by the Company for stock option exercises during the three months ended March 31, 2018 is \$1 (three months ended March 31, 2017 – \$237).

The total stock option expense for the three months ended March 31, 2018 is \$84 (three months ended March 31, 2017 – \$141).

Restricted Share Unit (RSU) and Performance Share Unit (PSU) Plan

On May 13, 2015, the Company adopted a RSU and PSU plan. 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. PSUs vest based upon the achievement of financial performance goals for the Company for the three years ended December 31, 2018. If certain targets are achieved, up to four times the PSU's granted will be exchanged for an equal number of common shares.

A summary of the RSUs and PSUs granted and outstanding as at March 31, 2018 is as follows:

Cipher Pharmaceuticals Inc.**Notes to Interim Condensed Consolidated Financial Statements****March 31, 2018**

(in thousands of United States dollars, except per share amounts - unaudited)

| | RSU's Number of units | PSU's Number of units |
|---------------------------------------|--------------------------|--------------------------|
| | 000's | 000's |
| Balance, January 1, 2018 | 103 | 65 |
| Granted during the period | 150 | - |
| Vested during the period | (31) | - |
| Forfeited/cancelled during the period | (3) | - |
| Balance, March 31, 2018 | 219 | 65 |

The total expense for RSUs and PSUs for the three months ended March 31, 2018 is \$68 (three months ended March 31, 2017 – \$108).

8. REVENUE

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

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|--------------------------------|------------------------------------|------------------------------------|
| | \$ | \$ |
| | | Restated |
| Licensing revenue | | |
| Royalty revenue | 2,156 | 5,996 |
| Licensing product sales | 604 | 854 |
| Total licensing revenue | 2,760 | 6,850 |

9. EXPENSES BY NATURE

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

| Employee salaries and benefits expenses | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|--|------------------------------------|------------------------------------|
| | \$ | \$ |
| Salaries, bonuses and benefits | 1,054 | 803 |
| Share-based compensation | 157 | 209 |
| Termination benefits | 17 | - |
| Total employee costs | 1,228 | 1,012 |

For the three months ended March 31, 2018 and March 31, 2017, all employee salaries and benefits are recorded in selling, general and administrative.

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(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 Mar 31, 2018 | Three months ended Mar 31, 2017 |
|--------------------------------|--|------------------------------------|
| | \$ | \$ |
| Salaries, bonuses and benefits | 292 | 136 |
| Share-based compensation | 81 | 108 |
| Directors fees | 56 | 70 |
| | 429 | 314 |

11. INCOME TAXES

Management uses estimates when determining current and deferred income taxes. These estimates are used to determine the recoverability of tax loss carry forward amounts, research and development expenditures and investment tax credits. Significant judgment is required regarding future probability of the Company to be able to realize deferred taxes. Changes in market conditions, changes in tax legislation, patent challenges and other factors, including the approval or launch of generic versions of any of the Company's products, could adversely affect the ongoing value of deferred taxes. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable profits to allow all or part of the asset to be recovered.

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The components of the income tax recovery are as follows:

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|------------------------------|--|------------------------------------|
| | \$ | \$ |
| Current income tax recovery | (50) | - |
| Deferred income tax recovery | (91) | (281) |
| Income tax recovery | (141) | (281) |

Income tax recovery as reported differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|---|--|------------------------------------|
| | \$ | \$ |
| Loss before income taxes from continuing operations | (1,092) | (1,873) |
| Tax provision at the statutory income tax rate of 26.5% | (289) | (496) |
| Permanent differences | (12) | 289 |
| Effect of currency translation adjustment | 160 | (74) |
| Income tax recovery | (141) | (281) |

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
March 31, 2018
(in thousands of United States dollars, except per share amounts - unaudited)

The movement in the deferred income tax asset for the three months ended March 31, 2018 and 2017 is as follows:

| | Three months ended Mar 31, 2018 | Three months ended Mar 31, 2017 |
|------------------------------|--|------------------------------------|
| | \$ | \$ |
| As at January 1 | 3,488 | 6,687 |
| Change in deferred tax asset | 91 | 281 |
| As at March 31 | 3,579 | 7,134 |

12. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per 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 March 31, 2018 was 26,731,498 (three months ended March 31, 2017 – 26,388,513).

Diluted earnings (loss) 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 March 31, 2018 was 27,031,194 (three months ended March 31, 2017 – 26,906,098). For the three months ended March 31, 2017, the computation of diluted loss per common share is equal to the basic loss per common share due to the anti-dilutive effect of the share-based compensation.

13. 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. At March 31, 2018, no amounts were accrued (March 31, 2017 – nil).

On March 19, 2018, the Company entered into a definitive arrangement agreement with Cardiome pursuant to which the Company will acquire the Canadian business portfolio of Cardiome for a total cash consideration of CDN\$25,500. Under the terms of the agreement, a termination fee of CDN\$2,500 is payable by Cardiome to the Company in certain circumstances, and a reverse termination fee of CDN\$2,500 million is payable by the Company to Cardiome in certain circumstances, if the proposed arrangement is not completed.

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. Where the Company has opted to market and sell a CIP Product directly in a territory, the Company pays a royalty 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.

In 2016, Galephar entered into a contract with another party (the "Assignee") to assign certain rights relating to CIP-ISOTRETINOIN under the Agreement. The Company is a party to this contract, agreeing to remit revenue on the same terms as the Agreement, from licensing and distribution within the U.S. for CIP-ISOTRETINOIN directly to the Assignee.

During the three months ended March 31, 2018, the Company paid royalties of \$1,315 (three months ended March 31, 2017 – \$3,270) to Galephar. As at March 31, 2018, the amount in accounts payable and accrued liabilities owed to Galephar were \$2,282 (December 31, 2017 – \$3,591). 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.

Cipher Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Financial Statements

March 31, 2018

(in thousands of United States dollars, except per share amounts - unaudited)

14. SEGMENTED INFORMATION

The Company's 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 now has one reportable segment.

The Company generated approximately 40% of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.

15. SUBSEQUENT EVENT

On April 5, 2018, the Company acquired the exclusive Canadian rights from Aclaris Therapeutics, Inc. ("Aclaris") to distribute and commercialize A-101. A-101 is an FDA approved topical product and the Company plans on filing a New Drug Submission with Health Canada in 2018. Under the terms of the licensing agreement, the Company paid an upfront payment of \$1,000 and upon achievement of certain milestone events, will pay additional regulatory and commercial milestone payments of up to \$2,750, as well as royalties from net product sales in Canada.

CORPORATE DIRECTORY

DIRECTORS

Mark Beaudet

Chair

Arthur Deboeck

Director

Christian Godin

Director

Dr. John Mull

Director

Dr. Laurence Terrisse-Rulleau

Director

Robert Tessarolo

Director

Harold Wolkin

Director

OFFICERS

Robert Tessarolo

President and Chief Executive Officer

Stephen Lemieux

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.

Transfer Agent

Computershare Investor Services Inc.
100 University Ave., 9th floor
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Toronto, Ontario M5J 2Y1
T: 1-800-564-6253
www.computershare.com/service

Legal Counsel

Wildeboer Dellelce LLP

Auditors

PricewaterhouseCoopers LLP

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