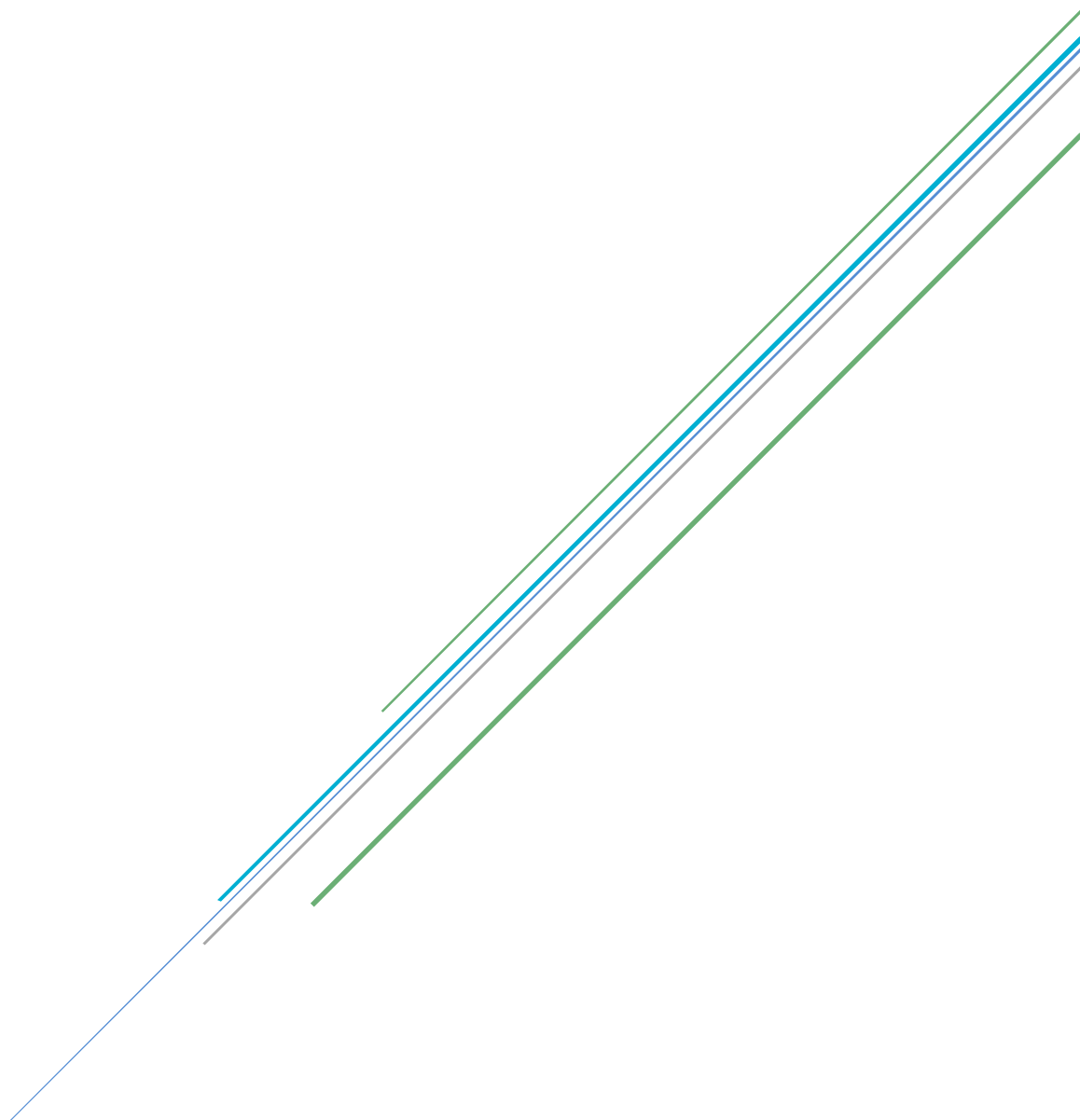




Management's Discussion and Analysis

For the three and six months ended June 30, 2023



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

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") as at and for the three and six months ended June 30, 2023. This document should be read in conjunction with the unaudited condensed interim consolidated financial statements of Cipher for the three and six months ended June 30, 2023 and the accompanying notes, and Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2022. The unaudited condensed interim consolidated financial statements 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 Audited Annual Financial Statements and Annual Information Form for the year ended December 31, 2022, is available on SEDAR+ at www.sedarplus.ca.

The discussion and analysis within this MD&A are prepared on August 10, 2023. All dollar figures are stated in thousands of U.S. dollars unless otherwise indicated.

Caution Regarding Forward-Looking Statements

This document includes forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to our objectives and goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. 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, the extent and impact of health pandemic outbreaks on our business, our ability to enter into development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on a limited number of products; our dependency on protection from patents that will expire; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of certain products; product approval process by regulators which can be 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 with new competing product entrants; requirements for additional capital to fund future operations; products in Canada may be subject to pricing regulation; dependence on key managerial personnel and external collaborators; certain of our products are subject to regulation as controlled substances; limitations on reimbursement in the healthcare industry; 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; 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; compliance with privacy and security regulation; our policies regarding product returns, allowances and chargebacks may reduce revenues; additional regulatory burden and controls over financial reporting; general commercial litigation, class actions, other litigation claims and regulatory actions; the difficulty for shareholders to realize in the United States upon judgments of U.S. courts predicated upon civil liability of the Company and its directors and officers who are not residents of the United States; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent laws; 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 fact that we have a significant shareholder; and our operating results may fluctuate significantly.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and

potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the “Risk Factors” section of this MD&A and the Annual Information Form for the year ended December 31, 2022, 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.

Business & Strategy

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 currently markets these products directly in Canada or indirectly through partners in the U.S., Canada, and Latin America.

Cipher’s corporate strategy is to assemble and manage a portfolio of prescription products across a broad range of therapeutic areas. The Company’s strategy includes the following components:








- Strategically market and distribute its Canadian commercial assets indirectly, by way of partnerships;
- Out-license products in markets where Cipher does not have a commercial presence;
- Selectively invest in drug development programs where we see a favourable risk/return profile;
- Conservatively manage capital and maximize cashflow and
- Distribute products through established sales organizations using a royalty based model.




Cipher is actively managing the advancement of our product pipeline development programs including:

- The MOB-015 product for the treatment of nail fungus with our partner Moberg Pharma AB (“Moberg”), presently in a pivotal phase 3 clinical trial in the U.S.
- Completion of proof-of-concept studies for our DTR-001 topical product treatment for the removal of tattoos.
- The Piclidenoson CF-101 (“Piclidenoson”) program with our partner Canfite Biopharma, which received positive top-line results from its Phase 3 COMFORT study of Piclidenoson in the treatment of moderate to severe psoriasis.

The Company is actively assessing and sourcing opportunities that would build on the strengths of the organization, including strategic commercial deployment in Canada and the U.S. The execution of any transaction is contingent on the Company being able to negotiate acceptable terms and securing the necessary financing, where required.

Pharmaceutical Business

Distributed by Cipher in Canada		
Product Revenue	Therapeutic Area	Product Description
	Dermatology	Epuris® (isotretinoin) is an oral retinoid indicated for the treatment of severe nodular and/or inflammatory acne, acne conglobate and recalcitrant acne in patients 12 years of age and older.
	Dermatology	Actikerall is a topical solution indicated for the 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.
	Dermatology	Ozanex is indicated for the topical treatment of impetigo in patients aged two months and older.
	Dermatology	Vaniqa is a topical cream indicated for the slowing of the growth of unwanted facial hair in women.
	Pain Management	Durela is an opioid analgesic indicated for the management of moderate to moderately severe pain in adults who require continuous treatment for several days or more.
	Hospital Acute Cardiovascular Care	Brinavess® (vernakalant hydrochloride) is for the rapid conversion of recent onset atrial fibrillation ("AF") to sinus rhythm in adults, for non-surgery patients with AF of seven days or less and for use in post-cardiac surgery patients with AF of three days or less.
	Hospital Acute Cardiovascular Care	Aggrastat® (tirofiban hydrochloride) is a reversible GP IIb/IIIa inhibitor (an intravenous anti-platelet drug) for use in patients with Acute Coronary Syndrome.

Licensing Revenue	Therapeutic Area/ Commercial Partner	Product Description
	Dermatology Sun Pharmaceutical Industries, Inc.	Absorica® (isotretinoin) is an oral retinoid indicated for the treatment of severe nodular and/or inflammatory acne, acne conglobate and recalcitrant acne in patients 12 years of age and older.
	Cardiovascular ANI Pharmaceuticals, Inc.	Lipofen® is indicated as adjunctive therapy to diet to reduce elevated LDL-C, total-C, triglycerides (TG) and Apo B, and to increase HDL-C in adult patients with primary hypercholesterolemia or mixed dyslipidemia (Fredrickson Types IIa and IIb). Lipofen is also indicated as adjunctive therapy to diet to reduce triglycerides in adult patients with severe hypertriglyceridemia (Fredrickson Types IV and V hyperlipidemia).
	Pain Management Vertical Pharmaceuticals, LLC	Conzip is an opioid agonist indicated for the management of moderate to moderately severe chronic pain in adults who require around-the-clock treatment of their pain for an extended period of time.

Key Performance Measures

Key performance measures for the second quarter ended and year-to-date June 30, 2023 and 2022 are presented in the tables below, along with the quarterly information for the preceding three quarters:

Financial Summary	YTD 2023	% Change vs. YTD 2022	Q2 2023	% Change vs. Q2 2022	Q1 2023	Q4 2022	Q3 2022
Licensing revenue	3,846	-7%	2,170	6%	1,676	1,987	2,013
Product revenue	6,328	-7%	3,118	-11%	3,210	2,922	2,779
Total revenues	10,174	-7%	5,288	-5%	4,886	4,909	4,792
Gross Profit	8,136	-7%	4,227	-6%	3,909	3,973	3,932
EBITDA *	5,781	-11%	3,085	-11%	2,696	3,008	2,476
Adjusted EBITDA *	6,248	-6%	3,077	-14%	3,171	3,147	2,632
After tax income	5,697	32%	3,071	43%	2,626	19,681	2,654
Basic EPS	0.23	35%	0.12	50%	0.10	0.78	0.11
Diluted EPS	0.22	38%	0.12	50%	0.10	0.77	0.10
Total Assets	80,612	-44%	80,612	44%	76,960	73,776	57,434
Increase (decrease) in Cash balances for the period	7,502		2,911		4,591	1,359	3,286

Financial Summary	YTD 2022	% Change vs. YTD 2021	Q2 2022	% Change vs. Q2 2021	Q1 2022	Q4 2021	Q3 2021
Licensing revenue	4,144	-26%	2,046	-28%	2,099	2,755	2,028
Product revenue	6,829	15%	3,512	7%	3,317	3,097	2,486
Total revenues	10,973	-5%	5,558	-9%	5,416	5,852	4,514
Gross Profit	8,778	-9%	4,486	-12%	4,292	4,920	3,723
EBITDA *	6,520	3%	3,449	-15%	3,071	4,070	1,479
Adjusted EBITDA *	6,663	-13%	3,571	-12%	3,092	4,072	2,213
After tax income	4,302	4%	2,152	-24%	2,149	2,807	796
Basic EPS	0.17	6%	0.08	-27%	0.08	0.11	0.03
Diluted EPS	0.16	7%	0.08	-20%	0.08	0.11	0.03
Total Assets	55,951	16%	55,951	16%	53,997	51,651	46,393
Increase (decrease) in Cash balances for the period	3,643		2,341		1,302	4,920	(443)

* See "Non-IFRS Financial Measures"

Recent Events

Launch of Epuris in Mexico

In May 2023, the Company's product, Epuris, was commercially launched and royalties were earned related to sales in Mexico, through a licensing arrangement with the Company's manufacturing partner, Galephar Pharmaceutical Research Inc. ("Galephar"), a Puerto Rico based pharmaceutical research and manufacturing company. The Company earns a percentage royalty on net product sales of Epuris in the Mexico and Latin America regions. Epuris was commercially launched by Galephar's commercial partner in Mexico, Italmex S.A. ("Italmex").

MOB-015 Approval in the European Union

On July 5, 2023, the Company announced that its partner, Moberg obtained European Union approval for MOB-015, a new topical treatment of Onychomycosis (nail fungus), as a result of demonstrating superior levels of mycological cure (76% vs. 42% for comparators) and a significantly better complete cure rate. MOB-015 has been recommended for national approval in 13 European countries with planned commercialization through partners such as Bayer and Allderma. MOB-015 is expected to be launched in Nordic countries such as Sweden during 2023.

Cipher holds the exclusive Canadian rights to MOB-015. The total Canadian prescription market for Onychomycosis was approximately CDN\$82 million at December 31, 2022 according to IQVIA, with a single product having over 90% market share.

Election of New Directors

On June 21, 2023, the Company announced that its shareholders at the annual and special meeting of shareholders had approved the election of two new directors to the Company's board of directors, Mr. Douglas Deeth and Dr. Hubert Walinski. Additionally, Mr. Craig Mull, the Company's Interim Chief Executive Officer, will remain as Chair of the board of directors and Mr. Harold Wolkin, the Chair of the audit committee of the board of directors, will also remain a member of the board of directors.

With the addition of Mr. Douglas Deeth and Dr. Hubert Walinski, the Company has strengthened its board of directors. Mr. Douglas Deeth has significant experience in intellectual property law, including contractual expertise such as negotiating license and product development agreements. Dr. Hubert Walinski brings diverse medical and scientific expertise to the board of directors, with experience across both the pharmaceutical and biotech industries, as well as holding significant roles in directing medical strategies instrumental in regulatory approval, launch and commercialization of numerous medicines.

The Company further announced that Mr. Arthur M. Deboeck, Mr. Christian Godin and Ms. Cathy Steiner, completed their service on the board of directors effective June 21, 2023.

Royal Bank of Canada Credit Facility

On March 1, 2023, the Company announced the completion and closing of a credit facility (the "Credit Facility") with Royal Bank of Canada. The Credit Facility provides the Company with up to \$35 million, which is primarily intended to support the Company's future M&A growth strategy and may also be drawn upon for general corporate purposes and working capital requirements. The Credit Facility is structured as a \$15 million Senior Secured Revolving Term Loan (the "Term Loan") with an additional accordion option to be increased by \$10 million. Additionally, the Credit Facility has a \$10 million Senior Secured Revolving Credit Facility (the "Revolving Loan") for general corporate purposes and working capital requirements. The initial term of the Term Loan is 3 years and the Revolving Loan is payable on demand. The Credit Facility bears interest at market prevailing rates once drawn upon.

Piclidenoson Phase III COMFORT Study

In June 2023, the Company's partner, Canfite Biopharma ("Canfite") announced that it had received a positive view from the U.S. Food and Drug Administration ("FDA") with respect to its registration plan for the pivotal Phase III clinical trial of CF-101 for the treatment of moderate to severe psoriasis. Canfite stated that the clinical trial is aimed at demonstrating clinical safety and efficacy for the treatment of patients with moderate to severe plaque psoriasis. The FDA requested two Phase III safety and efficacy studies and encouraged Canfite to enroll adolescent patients due to the strong safety profile of the drug demonstrated over the development history and prior clinical studies. To align the requests of the European Medicines Agency and the FDA, Canfite confirmed that it plans to conduct two Phase III studies in parallel, including adolescent patients and that upon positive conclusion of the Phase III program, Canfite plans to submit a New Drug Application to the FDA and a Marketing Authorization Plan to the European Medicines Agency.

In April 2023, Canfite announced that it received a positive opinion from the Committee for Medicinal Products for Human Use of the European Medicines Agency with respect to the submission of a registration plan for a pivotal Phase III clinical trial of CF-101 for the treatment of moderate to severe psoriasis. The pivotal Phase III study and the safety of the 3 mg twice daily dose of Piclidenoson were accepted by the agency.

In January 2023, Canfite announced that it had submitted its market registration plan to the European Medicines Agency and stated that a submission to the FDA would follow.

In September 2022, Canfite announced its Phase III COMFORT study of Piclidenoson used in the treatment of moderate to severe psoriasis met its primary endpoint of superiority and achieved a better tolerability profile in a comparative analysis. Based on the safety and efficacy data revealed in this trial, Canfite plans to approach the FDA and the European Medicines Agency ("EMA") with a protocol for a pivotal Phase III study for drug approval and registration by the end of 2023.

Normal Course Issuer Bid Approval

On September 19, 2022, the Company announced that it received approval from the Toronto Stock Exchange ("TSX") for its intention to commence a normal course issuer bid (the "NCIB") for its common shares. The notice provided that the Corporation may, during the 12 months period commencing September 22, 2022, and ending no later than September 21, 2023, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 1,403,293 of its common shares, representing 10% of its public float of 14,032,934 common shares as of September 8, 2022 (a total of 25,115,660 Common Shares were issued and outstanding as of such date).

Purchases under the NCIB made on the TSX will be made in compliance with the rules of the TSX at a price equal to the market price at the time of purchase or such other price as may be permitted by the TSX. In accordance with TSX rules, any daily repurchases (other than pursuant to a block purchase exception) on the TSX under the NCIB are limited to a maximum of 6,531 common shares, which represents 25% of the average daily trading volume on the TSX of 26,127 for the six months ended August 31, 2022.

The Company believes that, from time to time, the common shares trade in price ranges that do not fully reflect their value. In such circumstances, the Company believes that acquiring common shares for cancellation may represent an attractive and desirable use of its available funds.

MOB-015 North American Pivotal Phase 3 Study Launch

In May 2022, the Company's partner, Moberg began patient enrollment for the North American Phase 3 study for MOB-015 to treat nail fungus. The purpose of the study is to facilitate market approval by the FDA. Cipher holds the exclusive Canadian rights to MOB-015. In Canada, the total prescription market for Onychomycosis was approximately CDN\$82 million at December 31, 2022 according to IQVIA, with a single product having over 90% market share.

Distribution and Supply Agreement with Sun Pharmaceutical Industries

On March 10, 2022, the Company announced that it had entered into a second amended and restated distribution and supply agreement with Sun Pharmaceutical Industries, Inc. ("Sun"). Under the terms of the amendment, Cipher and Sun have agreed to extend Sun's exclusive right to market, sell and distribute the isotretinoin product portfolio, Absorica and Absorica AG in the United States through December 31, 2026 and Absorica LD through December 31, 2024.

Under the terms of the amendment, Cipher will continue to earn a royalty on U.S. net sales from Sun's isotretinoin product portfolio and will continue to be responsible for product supply. The amendment extends the relationship from November 30, 2022 until December 31, 2026.

Review of Operating Results

REVENUE

(IN THOUSANDS OF U.S. DOLLARS)				
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Licensing revenue	2,170	2,046	3,846	4,144
Product revenue	3,118	3,512	6,328	6,829
Net revenues	5,288	5,558	10,174	10,973

Total net revenue decreased by \$0.3 million or 5% to \$5.3 million for the three months ended June 30, 2023 compared to \$5.6 million for the three months ended June 30, 2022. Total net revenue decreased by \$0.8 million or 7% to \$10.2 million for the six months ended June 30, 2023 compared to \$11.0 million for the six months ended June 30, 2022.

Licensing Revenue

Licensing revenue increased by \$0.2 million or 6% to \$2.2 million for the three months ended June 30, 2023 compared to \$2.0 million for the three months ended June 30, 2022. Licensing revenue decreased by \$0.3 million or 7% to \$3.8 million for the six months ended June 30, 2023 compared to \$4.1 million for the six months ended June 30, 2022.

Licensing revenue from Absorica in the U.S. was \$1.4 million for the three months ended June 30, 2023, an increase of \$0.1 million or 12% compared to \$1.3 million for the three months ended June 30, 2022. The overall increase in licensing revenue on the Absorica portfolio (inclusive of the brand, Authorized Generic ("AG") and LD products) for the three months ended June 30, 2023 is primarily attributable to increased sales volumes on Absorica AG, on which the Company earns a royalty.

Licensing revenue from Absorica in the U.S. was \$2.4 million for the six months ended June 30, 2023, a decrease of \$0.3 million or 11% compared to \$2.7 million for the six months ended June 30, 2022. The overall decrease in licensing revenue on the Absorica portfolio for the six months ended June 30, 2023 is primarily attributable to royalty rates earned on the Absorica portfolio in connection with the amended and restated distribution and supply agreement entered into with Sun on March 10, 2022.

Despite the decrease in licensing revenue associated with the overall Absorica portfolio as described above, total Absorica portfolio market share has increased by 2.4% to 7.9% market share at June 30, 2023, from 5.5% market share at June 30, 2022, according to Symphony Health. Absorica and the AG's market share was approximately 7.2% as at June 30, 2023 compared to approximately 4.4% as at June 30, 2022, according to Symphony Health. The increase in market share of the Absorica portfolio over the comparative period has partially offset the impact to the Company's licensing revenue from the reduction in the total isotretinoin market in the US, which has declined 3.2% at June 30, 2023 when compared to June 30, 2022, according to Symphony Health.

Licensing revenue from Lipofen and Lipofen AG was \$0.6 million and \$1.2 million for the three and six months ended June 30, 2023, respectively. Representing a decrease of \$0.1 million and \$0.2 million or 20% and 11%, respectively, compared to \$0.7 million and \$1.4 million for the three and six months ended June 30, 2022, respectively. The decrease in licensing revenue from Lipofen and Lipofen AG for the three and six months ended June 30, 2023 is primarily attributable to lower sales volumes, on which the Company earns a royalty.

For the three months ended June 30, 2023, royalty revenue of \$0.1 million was earned on sales of Epuris in Mexico, which represented the initial royalties earned in connection with this licensing arrangement. The Company earns a percentage royalty on net product sales of Epuris in the Mexico and Latin America regions, in accordance with the Master Licensing and Clinical Supply Agreement entered into with the Company's manufacturing partner, Galephar. The Epuris product was commercially launched by Galephar's commercial partner in Mexico, Italmex, in May 2023.

Product Revenue

Product revenue decreased by \$0.4 million or 11% to \$3.1 million for the three months ended June 30, 2023 compared to \$3.5 million for the three months ended June 30, 2022. Product revenue decreased by \$0.5 million or 7% to \$6.3 million for the six months ended June 30, 2023 compared to \$6.8 million for the six months ended June 30, 2022.

Product revenue expressed on a constant currency basis has decreased slightly by \$0.2 million or 7% and \$0.1 million or 2% for the three and six months ended June 30, 2023, respectively, compared to the three and six months ended June 30, 2022.

Product revenue from Epuris was \$2.7 million for the three months ended June 30, 2023, a decrease of \$0.6 million or 17%, from \$3.3 million for the three months ended June 30, 2022. Product revenue from Epuris is transacted in Canadian dollars, and is therefore subject to foreign exchange rate changes with the U.S. dollar. Excluding the impact from foreign exchange translation of \$0.2 million, Epuris revenue decreased by approximately 13% or \$0.4 million. The remaining decrease in product revenue from Epuris for the three months ended June 30, 2023 is primarily attributable to lower sales volumes.

Product revenue from Epuris was \$5.4 million for the six months ended June 30, 2023, a decrease of \$1.0 million or 15%, from \$6.4 million for the six months ended June 30, 2022. Excluding the impact from foreign exchange translation of \$0.4 million, Epuris revenue decreased by approximately 10% or \$0.6 million. The remaining decrease in product revenue from Epuris for the six months ended June 30, 2023 is primarily attributable to lower sales volumes.

Product revenue for the remaining product revenue portfolio, Ozanex, Actikerall, Brinavess, Aggrastat, Vaniqa and Durela was \$0.4 million for the three months ended June 30, 2023, an increase of \$0.2 million or 66%, compared to \$0.2 million for the three months ended June 30, 2022.

Product revenue for the remaining product revenue portfolio was \$0.9 million for the six months ended June 30, 2023, an increase of \$0.5 million or 106%, compared to \$0.4 million for the six months ended June 30, 2022. The increase in product revenue was mainly associated with Durela, which the Company began selling directly starting in April 2022, which accounted for \$0.1 million and \$0.2 million of the increase for the three and six months ended June 30, 2023, respectively. The remaining increase in product revenue was largely attributable to Aggrastat, which accounted for \$0.1 million and \$0.2 million of the increase for the three and six months ended June 30, 2023, respectively.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)				
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Cost of products sold	1,061	1,072	2,038	2,195
Research and development	97	1	100	66
Depreciation and amortization	342	155	685	310
Selling, general and administrative	1,493	961	2,710	2,134
Total operating expenses	2,993	2,189	5,533	4,705

Total operating expenses increased by \$0.8 million or 37% to \$3.0 million for the three months ended June 30, 2023 compared to \$2.2 million for the three months ended June 30, 2022. The increase in operating expenses for the three months ended June 30, 2023 primarily include an increase in selling, general and administrative expenses of \$0.5 million, depreciation and amortization of \$0.2 million, research and development expenses of \$0.1 million.

Total operating expenses increased by \$0.8 million or 18% to \$5.5 million for the six months ended June 30, 2023 compared to \$4.7 million for the six months ended June 30, 2022. The increase in operating expenses for the six months ended June 30, 2023 primarily include an increase in selling, general and administrative expenses of \$0.6 million, depreciation and amortization of \$0.4 million, offset by a decrease in cost of products sold of \$0.2 million.

Cost of Products Sold

Cost of products sold for the three months ended June 30, 2023 was \$1.1 million, which was consistent with the three months ended June 30, 2022. Gross margin on product revenue decreased by 3% to 66% for the three months ended June 30, 2023 compared to 69% for the three months ended June 30, 2022, due to the impact from timing differences for product supply cost and product pricing increases. Increases to supply cost outpaced the increases to selling prices for a period of time during the three months ended June 30, 2023.

Cost of products sold for the six months ended June 30, 2023 was \$2.0 million, a decrease of \$0.2 million or 7%, compared to the six months ended June 30, 2022. Gross margin on product revenue was flat at 68% for the six months ended June 30, 2023 and June 30, 2022.

Research and Development

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

R&D expense for the three months ended June 30, 2023 was \$0.1 million, compared to a nominal amount for the three months ended June 30, 2022. The increase in R&D expense is associated with product stability studies for the pipeline product DTR-001, topical treatment for the removal of tattoos.

R&D expense for the six months ended June 30, 2023 was \$0.1 million, which was materially consistent with the six months ended June 30, 2022.

Depreciation and amortization

Depreciation and amortization includes \$0.3 million for amortization of intangible assets for the three months ended June 30, 2023, which increased by \$0.2 million or 136%, compared to \$0.1 million for the three months ended June 30, 2022.

Depreciation and amortization includes \$0.6 million for amortization of intangible assets for the six months ended June 30, 2023, which increased by \$0.3 million or 136%, compared to \$0.3 million for the six months ended June 30, 2022.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense for the three months ended June 30, 2023 was \$1.5 million, an increase of \$0.5 million or 55% from \$1.0 million for the three months ended June 30, 2022, primarily due to non-recurring restructuring costs during the three months ended June 30, 2023.

SG&A expense for the six months ended June 30, 2023 was \$2.7 million, an increase of \$0.6 million or 27% from \$2.1 million for the six months ended June 30, 2022, primarily due to the non-recurring restructuring costs and share based compensation incurred during the three months ended June 30, 2023.

A further breakdown of SG&A expense for the three and six months ended June 30, 2023 and June 30, 2022 is presented in the table below:

(IN THOUSANDS OF U.S. DOLLARS)				
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Salaries and benefits	378	309	400	679
Share-based compensation	209	47	653	85
Restructuring costs	231	—	269	—
Professional fees	428	404	904	889
Other selling, general and administrative	247	201	484	481
Total selling, general and administrative	1,493	961	2,710	2,134

Share-based compensation expense included in SG&A for the three months ended June 30, 2023 was \$0.2 million, an increase of \$0.2 million from the three months ended June 30, 2022. The increase in share-based compensation expense for the three months ended June 30, 2023 was due to cancellations of stock options and restricted share units arising from the departure of employees and directors during the period.

Share-based compensation expense included in SG&A for the six months ended June 30, 2023 was \$0.7 million, an increase of \$0.6 million from \$0.1 million for the six months ended June 30, 2022. The increase in share-based compensation expense for the six months ended June 30, 2023 was attributable to restricted share units issued, as well as cancellations of stock options and restricted share units arising from the departure of employees and directors during the period.

Restructuring costs included in SG&A for the three and six months ended June 30, 2023 were \$0.2 million and \$0.3 million, respectively, compared to \$nil for the three and six months ended June 30, 2022, respectively. Restructuring costs related to the severance of certain employees during the respective periods.

OTHER (INCOME) EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)				
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Interest income	(427)	(33)	(782)	(40)
Unrealized foreign exchange gain	(448)	75	(455)	58
Total other (income) expenses	(875)	42	(1,237)	18

Total other income for the three and six months ended June 30, 2023 was \$0.9 million and \$1.2 million, respectively, compared to \$0.04 million and \$0.02 million for the three and six months ended June 30, 2022, respectively. The increase relates to interest income earned on cash and cash equivalents held at financial institutions, combined with the impact of significant foreign exchange rate movements on the translation of net assets and certain transactions denominated in Canadian dollars.

Interest income increased by \$0.4 million and \$0.7 million, respectively, to \$0.4 million and \$0.8 million for the three and six months ended June 30, 2023, respectively, compared to nominal amounts for the three and six months ended June 30, 2022, respectively. The increase is due to higher prevailing market interest rates on the Company's higher cash balances on-hand.

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.

Income tax expense for the three and six months ended June 30, 2023 was \$0.1 million and \$0.2 million, respectively, compared to \$1.2 million and \$1.9 million, respectively, for the three and six months ended June 30, 2022.

At each reporting 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 various factors including projected taxable income.

As at June 30, 2023, the Company has recognized deferred tax assets in the condensed interim consolidated statement of financial position of \$17.1 million, compared to \$16.7 million as at December 31, 2022. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

INCOME AND INCOME PER COMMON SHARE

(IN THOUSANDS OF U.S. DOLLARS, except for per share amounts)				
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Income and comprehensive income for the period	3,071	2,152	5,697	4,302
Basic income per share	0.12	0.08	0.23	0.17
Diluted income per share	0.12	0.08	0.22	0.16

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

The weighted average number of common shares outstanding for the three months ended June 30, 2023 was 25,339,856 (three months ended June 30, 2022 – 25,434,467). The weighted average number of common shares outstanding for the six months ended June 30, 2023 was 25,228,728 (six months ended June 30, 2022 – 25,621,518).

The dilutive weighted average number of common shares outstanding for the three months ended June 30, 2023 was 25,723,082 (three months ended June 30, 2022 – 25,923,619). The dilutive weighted average number of common shares outstanding for the six months ended June 30, 2023 was 25,614,592 (six months ended June 30, 2022 – 26,107,106).

NON-IFRS FINANCIAL MEASURES

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are unlikely to be comparable to similar measures presented by other companies. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing a further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analyses of the Company's financial information reported under IFRS. Management uses non-IFRS measures such as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), Adjusted EBITDA, Adjusted EBITDA per share and Compound Rate of Return ("CAGR") to provide investors with supplemental measures of the Company's operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also believes that securities analysts, investors, and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess the Company's ability to meet future debt service, capital expenditure, and working capital requirements. The definition and a reconciliation of EBITDA, as used and presented by the Company, to the most directly comparable IFRS measures follows later in this MD&A.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS financial measures and are presented 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, non-cash share-based compensation, changes in fair value of derivative financial instruments, provisions for legal settlements, loss on disposal of assets and loss on extinguishment of lease, impairment of intangible assets, restructuring costs and unrealized foreign exchange gains and losses.

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 is a calculation that is not standardized and may not be comparable to similar financial measures disclosed by other issuers.

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

(IN THOUSANDS OF U.S. DOLLARS, except for per share amounts)	Three months ended June, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Income and comprehensive income	3,071	2,152	5,697	4,302
Add back:				
Depreciation and amortization	342	155	685	310
Interest income	(427)	(33)	(782)	(40)
Income taxes	99	1,175	181	1,948
EBITDA	3,085	3,449	5,781	6,520
Unrealized foreign exchange (gain) loss	(448)	75	(455)	58
Restructuring costs	231	—	269	—
Share-based compensation	209	47	653	85
Adjusted EBITDA	3,077	3,571	6,248	6,663
Adjusted EBITDA per share – basic	0.12	0.14	0.25	0.26
Adjusted EBITDA per share – dilutive	0.12	0.14	0.24	0.26

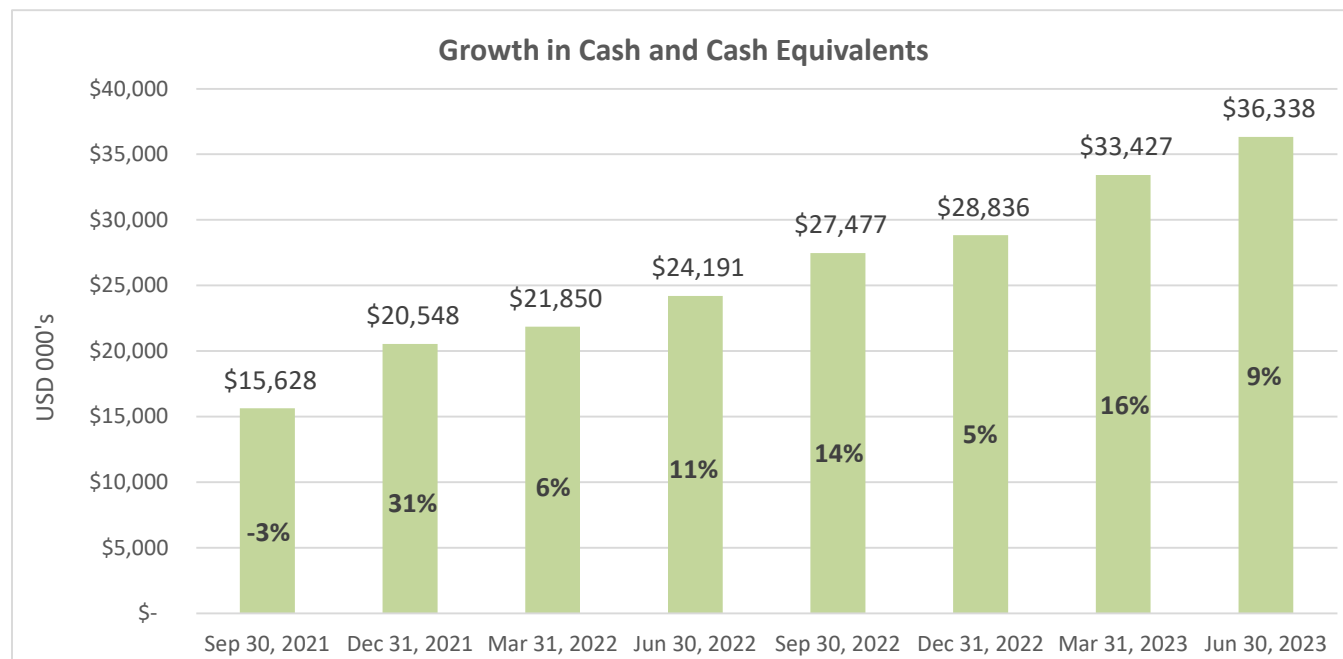
Liquidity and Capital Resources

(IN THOUSANDS OF U.S. DOLLARS)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Cash provided by operating activities	2,946	3,200	7,611	5,151
Cash used in financing activities	(242)	(697)	(276)	(1,433)
Net change in cash	2,704	2,503	7,335	3,718
Impact of foreign exchange on cash	207	(162)	167	(75)
Cash and cash equivalents, beginning of period	33,427	21,850	28,836	20,548
Cash and cash equivalents, end of period	36,338	24,191	36,338	24,191

Cash

As at June 30, 2023, the Company had cash and cash equivalents of \$36.3 million compared to \$28.8 million as at December 31, 2022.

The following graph illustrates the Company's cash and cash equivalents as at June 30, 2023 and the preceding quarterly periods, as well as the percentage increase of cash and cash equivalents over the preceding period.



Cash and cash equivalents of \$36.3 million as at June 30, 2023 have increased \$7.5 million or 26% compared to \$28.8 million as at December 31, 2022. The increase in cash and cash equivalents is due to cash provided by operating activities of \$7.6 million combined with a foreign exchange impact of \$0.2 million, partially offset by \$0.3 million of cash used for NCIB share repurchases during the six months ended June 30, 2023.

Operating Activities

Cash provided by operating activities was \$7.6 million for the six months ended June 30, 2023 compared to \$5.2 million for the six months ended June 30, 2022. Cash provided by operations, excluding working capital was \$6.6 million for the six months ended June 30, 2023 compared to \$4.9 million for the six months ended June 30, 2022. The change in cash provided by operating activities reflects a recovery of \$1.1 million in working capital for the six months ended June 30, 2023 compared to a recovery in working capital of \$0.3 million in the comparative period, primarily attributable to improved collections on accounts receivable in the current period.

Investing Activities

Cash used in investing activities was \$nil for the six months ended June 30, 2023 and 2022.

Financing Activities

Cash used in financing activities was \$0.3 million for the six months ended June 30, 2023 compared to \$1.4 million for the six months ended June 30, 2022. The financing activities primarily consisted of the purchase of common shares under the NCIB (as defined in the "Outstanding Share Data" section below).

Cash used in financing activities for the six months ended June 30, 2023 has decreased compared to the six months ended June 30, 2022, due to the number of common shares purchased under the NCIB. The purchase of common shares under the NCIB is restricted to a daily repurchase limit, which was 6,531 common shares per day during the six months ended June 30, 2023, compared with 12,084 common shares per day during the six months ended June 30, 2022. Share repurchases under the NCIB are further limited by actual daily trading volumes of the Company's common shares throughout the period.

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

Financial Instruments

As at June 30, 2023, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and income taxes payable, which are measured at amortized cost and their fair values approximate carrying values.

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

Risk Management

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

Credit Risk

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

The Company has concentration risk, as approximately 85% of total sales came from four wholesaler customers during the six months ended June 30, 2023 and 86% of total accounts receivable is due from three customers as at June 30, 2023.

Liquidity Risk

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

The Company has financed its cash requirements primarily through operations. The Company controls liquidity risk through management of working capital, cash flows and its available undrawn Credit Facility.

The Company anticipates that its current cash balance and its available undrawn Credit Facility, together with the cash flow that is generated from operations will be sufficient to execute its current business plan for the remainder of 2023 and beyond.

Market Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. dollars. The Company is exposed to currency risk through its net assets and certain recurring transactions that are denominated in Canadian dollars ("CDN\$"). A change of 10 basis points in the U.S./CDN exchange rate on June 30, 2023 would have had a \$3 impact on income and comprehensive income for the period. The following is a summary of the financial assets and financial liabilities denominated in Canadian dollars as of June 30, 2023:

	CDN\$
Cash and cash equivalents	13,659
Accounts receivable	1,889
Accounts payable and accrued liabilities	(2,195)
Income taxes payable	(6,924)
Finance lease obligations	(511)
Net financial assets	5,917

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.

Capital Management Risk

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

Outstanding Share Data

The Company is authorized to issue an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at June 30, 2023, the Company had 25,282,844 common shares issued and outstanding, compared to 25,062,980 common shares as at December 31, 2022. No preference shares were issued and outstanding as at June 30, 2023, or December 31, 2022. Subsequent to June 30, 2023, 1,332 common shares were issued under the Company's employee and director share purchase plan and 5,804 common shares were issued upon the exercise of stock options under the Company's stock option plan, bringing the total number of common shares issued and outstanding to 25,289,980 as of the date of this MD&A.

During the six months ended June 30, 2023, a total of 69,311 stock options were exercised with a weighted average exercise price of CDN\$1.45. As at June 30, 2023, there were 951,990 options outstanding of which 298,038 have vested.

On September 19, 2022, the Company announced that it received approval from the TSX for its intention to commence an NCIB for its common shares. The notice provided that the Company may, during the 12 months period commencing September 22, 2022, and ending no later than September 21, 2023, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 1,403,293 of its common shares, representing 10% of its public float of 14,032,934 common shares as of September 8, 2022 (a total of 25,115,660 Common Shares were issued and outstanding as of such date).

On September 8, 2021, the Company announced that it received approval from the TSX for its intention to renew its NCIB with respect to the common shares. The notice provided that the Company may, during the 12 months period commencing September 10, 2021 and ending no later than September 9, 2022, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 1,541,445 of its common shares, representing 10% of its public float of 15,414,450 common shares as of August 27, 2021 (a total of 26,485,401 Common Shares were issued and outstanding as of such date).

Purchases under the NCIB made on the TSX will be made in compliance with the rules of the TSX at a price equal to the market price at the time of purchase or such other price as may be permitted by the TSX. In accordance with TSX rules, any daily repurchases (other than pursuant to a block purchase exception) on the TSX under the NCIB are limited to a maximum of 6,531 common shares, which represents 25% of the average daily trading volume on the TSX of 26,127 for the six months ended August 31, 2022.

Cipher believes that, from time to time, the common shares trade in price ranges that do not fully reflect their value. In such circumstances, Cipher believes that acquiring common shares for cancellation may represent an attractive and desirable use of its available funds. Decisions regarding the amount and timing of future purchases of common shares will be based on market conditions, share price and other factors and will be in management's discretion. Cipher may elect to modify, suspend or discontinue the NCIB at any time. Repurchases under the NCIB will be funded using Cipher's cash resources and all common shares repurchased will be cancelled.

Contractual Obligations

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable entity to

compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined.

Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors and officers liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

Executive employment agreements allow for additional payments if a change of control occurs or for termination with or without cause.

Development Milestones

The Company has development and regulatory milestone payments of up to \$4,050 related to its pipeline product, MOB-015. Additionally, MOB-015 has up to \$10,000 of potential sales milestone payments if certain sales thresholds are reached.

The Company has development and regulatory milestone payments of CDN\$1,000 related to its near-term pipeline product, CF-101, that become payable upon achievement of certain clinical trial and regulatory approval metrics.

Licensing Agreements with Galephar

The Company has entered into the Galephar Agreement (as defined in the “Significant Partnerships” section below) with Galephar (as defined in the “Significant Partnerships” section below). Under the Galephar Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER (the “CIP Products”) in various countries. In accordance with the Galephar Agreement, the Company retains 50% of all revenue from licensing and distribution arrangements entered into with respect to the CIP Products, with the other 50% due to Galephar. Galephar retains the right to manufacture and supply the CIP Products. With respect to licensing and distribution arrangements, the Company manages the product supply arrangements with commercial partners and Galephar; product is shipped directly from Galephar to the respective commercial partners. Where the Company has opted to market and sell the CIP Product itself, the Company purchases the finished goods from Galephar directly.

With respect to CIP-ISOTRETINOIN, the Company has entered into licensing and distribution arrangements for U.S., and Mexico, 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 and CIP-TRAMADOL ER in the U.S. The Company has opted to market and sell CIP-TRAMADOL ER directly in Canada effective April 2022.

Lease Obligation

The Company has an office lease for its corporate operations head office. The term of the lease is five years and commenced on June 1, 2022.

The following table outlines the Company's undiscounted contractual obligations as at June 30, 2023.

Description	Less than one year	Years two and three	Beyond three years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,504	-	-	4,504
Income taxes payable	5,230	-	-	5,230
Lease obligations	112	215	100	427
Total	9,846	215	100	10,161

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Selected Quarterly Information

The following amounts are derived from unaudited financial information prepared in accordance with IFRS.

(IN MILLIONS OF U.S. DOLLARS, EXCEPT FOR PER SHARE AMOUNTS)	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue	5.3	4.9	4.9	4.8	5.6	5.4	5.9	4.5
Net income and comprehensive income for the period	3.1	2.6	19.7	2.7	2.2	2.1	2.8	0.8
Basic income per Common Share	0.12	0.10	0.78	0.11	0.08	0.08	0.11	0.03
Diluted income per Common Share	0.12	0.10	0.77	0.10	0.08	0.08	0.11	0.03

Selected Financial Information

The following information has been prepared in accordance with IFRS.

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT FOR PER SHARE AMOUNTS)	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
<i>Period ended</i>				
Net revenues	5,288	5,558	10,174	10,973
Total operating expenses	2,993	2,189	5,533	4,705
Total other (income) expenses	(875)	42	(1,237)	18
Income for the period	3,170	2,152	5,796	4,302
Income per share:				
Basic	0.12	0.08	0.23	0.17
Diluted	0.12	0.08	0.23	0.16
<i>As at</i>				
Total assets	80,612	55,951	80,596	55,951
Total non-current liabilities	282	452	282	452

Significant Partnerships

GALEPHAR

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

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

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

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

- *Oral Lidose® Technology.* Galephar's oral semi-liquid capsule drug delivery technology is a patent-protected drug delivery system. Active ingredients are incorporated in semi-solid or liquid compositions contained in capsules. This delivery system facilitates low manufacturing costs, while delivering super-bioavailability for relatively water-insoluble compounds. CIP-FENOFIBRATE and CIP-ISOTRETINOIN are based on the Lidose drug delivery system.
- *Oral Controlled-Released Bead Technology.* Galephar's multiple particle-controlled release capsule technology ("MPCRC"), is based on unique extrusion and spheronization methods, and produces beads containing up to 80% active ingredient. Each coated bead is a controlled release system in itself, and the multi-particulate system provides smooth consistent plasma levels over an extended period of time. The system is virtually pH-independent enabling the product to be taken with or without food. MPCRC enables CIP-TRAMADOL ER.

Product Pipeline

MOB-015

On September 18, 2018, Cipher acquired the exclusive Canadian rights to commercialize, promote, sell and distribute MOB-015 from Moberg. MOB-015 is a topical formulation of terbinafine for treatment of onychomycosis, a common and destructive nail infection caused predominately by dermatophyte fungi. Approximately 10% of the general population suffer from onychomycosis and a majority of those afflicted go untreated.

In Canada, according to IQVIA, the total prescription market for Onychomycosis was CDN\$90.6 million in 2022, 90% of which were topical drugs, growing with a five-year CAGR of 7% for the period 2017-2022.

MOB-015 is an internally developed topical formulation of terbinafine based on Moberg's experience from its leading OTC product Kerasal Nail®/Emtrix®. Oral terbinafine is currently the standard of care for treating onychomycosis but is associated with safety issues, including drug interactions and liver damage. For many years, developing a topical terbinafine treatment without the safety issues of oral terbinafine has been highly desirable, but unsuccessful due to insufficient delivery of the active substance through the nail.

In a previous phase 2 study, MOB-015 demonstrated delivery of high microgram levels of terbinafine into the nail and through the nail plate into the nail bed. Mycological cure of 54% and significant clear nail growth was observed in patients who completed the phase 2 study. Plasma levels of terbinafine with MOB-015 were substantially lower than after oral administration, reducing the risk of liver toxicities observed with oral terbinafine.

On December 9, 2019, Moberg announced that MOB-015 met the primary endpoint as well as the key secondary endpoints in the North American Phase 3 study. This clinical trial included 365 patients with mild to moderate toenail onychomycosis (nail fungus) affecting 20-60% of the large toenail. The study was conducted at 32 sites in the U.S. and Canada. Patients received treatment for 48 weeks and had the last follow up assessment at 52 weeks. At week 52, significantly more patients reached complete cure when treated with MOB-015 than when treated with vehicle ($p=0.019$) following 48 weeks of daily treatment.

The primary endpoint, the proportion of patients achieving complete cure of the target toenail at 52 weeks, was achieved in 4.5 percent of the patients receiving MOB-015 and in none of the patients receiving vehicle ($p=0.019$). Complete cure is a composite endpoint that requires both a completely clear nail and a mycological cure. Mycological cure is defined as both negative KOH test and a negative dermatophyte culture. Mycological cure was achieved in 70% of the patients treated with MOB-015 ($p<0.0001$).

On June 25, 2020, Moberg announced that MOB-015 met the primary endpoint in the European Phase 3 study including 452 onychomycosis patients, showing non-inferiority versus topical ciclopirox. Mycological cure was achieved in 84% of patients, which is unprecedented for a topical treatment. The Phase 3 results from this study were consistent with the results from the North American Phase 3 study results with low complete cure rates despite the high mycological cure rates.

On September 22, 2021, Moberg announced that it has received approval of the pediatric plan for MOB-015 from EMA's paediatric committee (PDCO). This approval enables the company to pursue a full marketing authorization application providing up to ten years of exclusivity in Europe following approval.

This positive decision means that Moberg intends to conduct a pediatric study during and after the approval process for MOB-015. The study includes 30 children, 6 to 17 years of age, and will be initiated in the second half of 2022. The pediatric study supplements the already completed clinical program, including the two Phase 3 studies with a total of more than 800 patients, where the primary endpoint was achieved in both the North American and European studies.

On November 8, 2021, Moberg announced it had entered into a collaboration with Allderma AB for the launch of MOB-015 in Sweden, Norway and Denmark. In the collaboration, Allderma is responsible for marketing, distribution and sales in Sweden, Denmark and Norway, while Moberg is responsible for the manufacture and delivery of the product. The agreement also includes co-financing of marketing activities and market-based financial terms. The agreement with Allderma complements the existing licensing agreement for MOB-015 in Europe. The agreed terms allow for an early launch in Moberg's home market closely after market approval, expected in 2023.

On December 23, 2021, Moberg announced that the Medical Products Agency in Sweden has agreed to be reference member state for Moberg's registration application for MOB-015.

On March 28, 2022, Moberg submitted a full application, which offers the possibility of data exclusivity in Europe for up to ten years following market approval. The Swedish Medical Products Agency is the reference member state and will lead the review of the application. Moberg's goal is to receive its first market approval and launch MOB-015 in 2023.

On May 10, 2022, Moberg announced that patient enrollment started in an additional North American Phase 3 study for MOB-015 (nail fungus treatment). The randomized, multicenter, vehicle-controlled Phase 3 study will include approximately 350 patients in North America. The patients will be evaluated over 52 weeks and the primary endpoint will be the proportion of subjects achieving complete cure of their target nail. The purpose of the new study is to facilitate market approval in the US as well as strengthen the product's clinical evidence and marketing claims globally.

On June 28, 2023, Moberg announced that it had obtained European Union approval for MOB-015, as a result of demonstrating superior levels of mycological cure (76% vs. 42% for comparators) and a significantly better complete cure rate. MOB-015 has been recommended for national approval in 13 European countries with planned commercialization through partners such as Bayer and Allderma. MOB-015 is expected to be launched in Nordic countries such as Sweden during 2023.

Piclidenoson CF-101

In March 2015, Cipher entered into an agreement to license the Canadian distribution rights to Piclidenoson, a novel chemical entity being developed by Canfite for moderate to severe plaque psoriasis and rheumatoid arthritis ("RA"). The active agent of Piclidenoson is IB-MECA (methyl 1-[N6-(3-iodobenzyl)-adenin-9-yl]-beta-D-ribofuronamide), that is active by modulating the key signaling proteins such as NF-kB and PI3K, resulting in inhibition of inflammatory cytokine production.

In 2020, Canfite discontinued the enrollment of patients into the phase III RA program, ACROBAT, after an interim analysis by the data monitoring committee of the study recommended not to continue patient enrollment. Although Piclidenoson treatment was superior to placebo, Piclidenoson treatment was not "non inferior" to Methotrexate, the comparator treatment arm of the study. Canfite made the decision to stop the ACROBAT study and focus on the psoriasis COMFORT study instead.

Approximately one million people in Canada have psoriasis, according to Canadian Dermatology Association in 2018. In moderate to severe cases, the most common treatment options are systemic biologic drugs, which are delivered by injection or intravenous infusion and have well-known shortcomings, including increased risk of infection. Piclidenoson is an oral small molecule drug formulated in a tablet and has an excellent human safety profile, demonstrated in more than 1,000 patients. As of November 2021, the Phase III study has completed patient enrollment. The study is designed to establish Piclidenoson's superiority compared to placebo and non-inferiority compared to apremilast in patients with moderate to severe plaque psoriasis.

Piclidenoson completed a phase II/III double-blind, placebo-controlled study, which was designed to test the efficacy of CF-101 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 Canfite at the end of March 2015. Results from this phase II/III trial and results from the prior phase II trial in psoriasis were both positive, showing that Piclidenoson effectively improved disease symptoms. In addition, at the end of 2013, Piclidenoson completed a phase IIb study for active

RA, and Canfite has completed the study design for a phase III program. Canfite is commencing two phase III programs, one for RA (ACROBAT) and one for psoriasis (COMFORT).

Canfite recently reported topline results from its Phase III COMFORT™ study which met its primary endpoint with statistically significant improvement over placebo in psoriasis patients and an excellent safety profile for Piclidenoson. Canfite indicated that the Phase III COMFORT™ data point towards a better safety profile for Piclidenoson as compared to Otezla, the leading oral therapy for psoriasis on the market.

In January 2023, Canfite announced that it had submitted its market registration plan to the European Medicines Agency and stated that a submission to the FDA would follow.

In April 2023, Canfite announced that it received a positive opinion from the Committee for Medicinal Products for Human Use of the European Medicines Agency with respect to the submission of a registration plan for a pivotal Phase III clinical trial of CF-101 for the treatment of moderate to severe psoriasis. The pivotal Phase III study and the safety of the 3 mg twice daily dose of Piclidenoson were accepted by the agency.

In June 2023, Canfite announced that it had received a positive view from the FDA with respect to its registration plan for the pivotal Phase III clinical trial of CF-101 for the treatment of moderate to severe psoriasis. Canfite stated that the clinical trial is aimed at demonstrating clinical safety and efficacy for the treatment of patients with moderate to severe plaque psoriasis. The FDA requested two Phase III safety and efficacy studies and encouraged Canfite to enroll adolescent patients due to the strong safety profile of the drug demonstrated over the development history and prior clinical studies. To align the requests of the European Medicines Agency and the FDA, Canfite confirmed that it plans to conduct two Phase III studies in parallel, including adolescent patients and that upon positive conclusion of the Phase III program, Canfite plans to submit a New Drug Application to the FDA and a Marketing Authorization Plan to the European Medicines Agency.

The timeline for regulatory submissions to Health Canada will be determined by the successful results of the psoriasis clinical trial program.

Under the terms of the agreement with the Company, Canfite 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 Canfite will deliver finished product to Cipher.

DTR-001

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

Under the terms of the agreement, an upfront payment of CDN\$75 thousand was made by Cipher upon execution of the agreement and the agreement contains milestone payments of up to CDN\$3.6 million based on future regulatory and commercial sales milestones, as well as royalties on commercial sales. In our tattoo program ("DTR001"), the US patent office issued a Notice of Allowance for the US patent application covering Tattoo dermal compositions (topical, transdermal and intradermal). We have received encouraging results from some proof-of-concept studies and identified a lead candidate compound. Additional in vitro studies were conducted in 2021 to optimize the formulation and demonstrate successful penetration of human skin, further strengthening the proof-of-concept evidence. Further progress was also made in broadening patent protection. In 2021, three patents were granted relating to the Company's tattoo removal program. A Brazilian patent was issued on January 5, 2021, a Hong Kong patent was issued on January 15, 2021 and a New Zealand patent was issued on August 31, 2021 for "COMPOSITIONS AND METHODS FOR THE REMOVAL OF TATTOOS". In addition, on December 29, 2021, a Canadian Patent Application was allowed. These patents have a term to 2034 and are part of a larger family that includes granted US, Australian and European patents and a pending US application.

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.

Critical Accounting Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make a number of judgments, estimates and assumptions regarding recognition and measurement of assets, liabilities, revenues and expenses, gains and losses, and disclosures of contingencies. These estimates and assumptions are subject to change based on experience and new information. Management reviews its estimates on an ongoing basis to ensure that the estimated values appropriately reflect changes in the Company's business and new information as it becomes available. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate is made. Critical accounting estimates are also those estimates which, where a different estimate could have been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on the company's financial condition, changes in financial condition or financial performance.

A detailed description of the Company's critical accounting estimates is provided in Note 4 of the consolidated financial statements for the year ended December 31, 2022 and in the "Critical Accounting Estimates and Judgments" section of the Company's annual MD&A for the year ended December 31, 2022, dated March 16, 2023.

Disclosure Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), as those terms are defined in National Instrument (NI) 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Management has designed the DC&P and ICFR, the latter of which was using the framework in Internal Control – Integrated Framework (published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and as revised in 2013) to provide reasonable assurance (i) that material information relating to the Company is made known to the Chief Executive Officer and Chief Financial Officer during the reporting period; (ii) that information required to be disclosed by the Company in its filings under securities legislation is recorded, processed, summarized and reported within the required time periods; (iii) regarding the reliability of financial reporting and preparation of interim consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes in ICFR that occurred during the six month period ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. As a result, management's conclusion on the effectiveness of the Company's ICFR reporting and its DC&P that they were operating effectively as at December 31, 2022, has not changed.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

Risk Factors

There have been no changes to the risk factors with respect to the Company and its business as outlined in the Company's most recently filed Annual Information Form for the year ended December 31, 2022 filed on SEDAR+ at www.sedarplus.ca and to related information in other filings with Canadian securities regulatory authorities.



Cipher Pharmaceuticals Inc.

**Condensed interim consolidated financial statements
Unaudited**

For the three and six months ended June 30, 2023

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the **condensed** interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Cipher Pharmaceuticals Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity’s auditor.

Cipher Pharmaceuticals Inc.

Condensed interim consolidated statements of financial position

(in thousands of United States dollars – unaudited)

	As at June 30, 2023	As at December 31, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	36,338	28,836
Accounts receivable	5,824	6,802
Inventory	2,864	2,152
Prepaid expenses and other assets	224	371
Total current assets	45,250	38,161
Property and equipment, net	441	481
Intangible assets, net	2,126	2,754
Goodwill	15,706	15,706
Deferred tax assets (Note 9)	17,089	16,674
Total assets	80,612	73,776
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	4,504	4,107
Income taxes payable (Note 9)	5,230	4,904
Contract liability	292	257
Current portion of lease obligation (Note 10)	104	101
Total current liabilities	10,130	9,369
Lease obligation (Note 10)	282	327
Total liabilities	10,412	9,696
Shareholders' equity		
Share capital (Note 4)	18,281	17,719
Contributed surplus	5,471	5,358
Accumulated other comprehensive loss	(9,514)	(9,514)
Retained earnings	55,962	50,517
Total shareholders' equity	70,200	64,080
Total liabilities and shareholders' equity	80,612	73,776

Commitments and contingencies (Note 10)

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

Approved on behalf of the Board:

(Signed) "Craig Mull"

Craig Mull

Chairman

(Signed) "Harold Wolkin"

Harold Wolkin

Director

Cipher Pharmaceuticals Inc.

**Condensed interim consolidated statements of income and
comprehensive income**

(in thousands of United States dollars – unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenue				
Licensing revenue <i>(Note 5)</i>	2,170	2,046	3,846	4,144
Product revenue	3,118	3,512	6,328	6,829
Net revenue	5,288	5,558	10,174	10,973
Operating expenses				
Cost of products sold	1,061	1,072	2,038	2,195
Research and development	97	1	100	66
Depreciation and amortization	342	155	685	310
Selling, general and administrative <i>(Notes 6 & 7)</i>	1,493	961	2,710	2,134
Total operating expenses	2,993	2,189	5,533	4,705
Other (income) expenses				
Interest income	(427)	(33)	(782)	(40)
Unrealized foreign exchange (gain) loss	(448)	75	(455)	58
Total other (income) expenses	(875)	42	(1,237)	18
Income before income taxes	3,170	3,327	5,878	6,250
Current income tax (recovery) expense <i>(Note 9)</i>	115	1,099	212	1,823
Deferred income tax (recovery) expense <i>(Note 9)</i>	(16)	76	(31)	125
Total income tax (recovery) expense	99	1,175	181	1,948
Net income and comprehensive income for the period	3,071	2,152	5,697	4,302
Income per share <i>(Note 8)</i>				
Basic	0.12	0.08	0.23	0.17
Diluted	0.12	0.08	0.22	0.16

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

Cipher Pharmaceuticals Inc.

Condensed interim consolidated statements of changes in shareholders' equity

(in thousands of United States dollars – unaudited)

	Share Capital		Contributed Surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	(000s)	\$	\$	\$	\$	\$
Balance, January 1, 2023	25,063	17,719	5,358	(9,514)	50,517	64,080
Net income for the period	—	—	—	—	5,697	5,697
Shares issued under the share purchase plan (Note 4)	8	21	—	—	—	21
Shares issued under the restricted share unit plan (Note 4)	261	497	(497)	—	—	—
Exercise of stock options (Note 4)	69	118	(43)	—	—	75
Share-based compensation expense (Note 4)	-	-	653	—	—	653
Purchase of common shares under common share repurchase plan (Note 4)	(118)	(74)	—	—	(252)	(326)
Balance, June 30, 2023	25,283	18,281	5,471	(9,514)	55,962	70,200
Balance, January 1, 2022	25,937	18,121	5,092	(9,514)	25,198	38,897
Net income for the period	—	—	—	—	4,302	4,302
Shares issued under the share purchase plan (Note 4)	15	25	—	—	—	25
Shares issued under the restricted share unit plan (Note 4)	78	59	(59)	—	—	—
Exercise of stock options (Note 4)	37	61	(21)	—	—	40
Share-based compensation expense (Note 4)	—	—	149	—	—	149
Purchase of common shares under common share repurchase plan (Note 4)	(864)	(536)	—	—	(962)	(1,498)
Balance, June 30, 2022	25,203	17,730	5,161	(9,514)	28,538	41,915

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

Cipher Pharmaceuticals Inc.**Condensed interim consolidated statements of cash flows**

(in thousands of United States dollars – unaudited)

	Six months ended June 30,	
	2023	2022
	\$	\$
Operating activities		
Net income for the period	5,697	4,302
Add (deduct) items not affecting cash:		
Depreciation and amortization	685	310
Share-based compensation	653	85
Unrealized foreign exchange (gain) loss	(455)	58
Non-cash interest expense	5	—
Deferred income taxes	(31)	125
	6,554	4,880
Changes in working capital balances related to operations:		
Accounts receivable	978	(676)
Inventory	(712)	(599)
Prepaid expenses and other assets	147	132
Accounts payable and accrued liabilities	397	(469)
Income taxes payable	212	1,823
Contract liability	35	60
Cash provided by operating activities	7,611	5,151
Financing activities		
Payment of lease obligations <i>(Note 10)</i>	(46)	-
Proceeds from shares issued under the share purchase plan	21	25
Purchase of common shares under a common share repurchase plan	(326)	(1,498)
Exercise of stock options	75	40
Cash used in financing activities	(276)	(1,433)
Net increase in cash during the period	7,335	3,718
Impact of foreign exchange on cash and cash equivalents	167	(75)
Cash and cash equivalents, beginning of period	28,836	20,548
Cash and cash equivalents, end of period	36,338	24,191

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

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 or indirectly through partners in the United States ("U.S."), Canada and Latin America. The Company is building its business through product acquisitions and in-licensing arrangements. Cipher was incorporated under the *Business Corporations Act* of Ontario on January 9, 2004 and is located at 5750 Explorer Drive, Suite 404, Mississauga, Ontario. The address of the Company's registered office is 77 King Street West, Suite 3000, Toronto, Ontario.

2. Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The disclosures contained in these condensed interim consolidated financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS, and are available on SEDAR+ at www.sedarplus.ca. The condensed interim consolidated financial statements are based on accounting policies as described in the Company's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of new standards effective as of January 1, 2023 and amendments to the existing accounting policies surrounding financial instruments, for the inclusion of long-term debt, as outlined below.

Certain prior period balances have been reclassified to conform with the current period financial statement presentation.

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned legal subsidiaries: Cipher US Holdings Inc., Cipher US Holdco LLC and Cipher Pharmaceuticals US LLC. All significant inter-company balances and transactions have been eliminated upon consolidation.

The Board of Directors approved these condensed interim consolidated financial statements on August 10, 2023.

Financial instruments

Financial liabilities at amortized cost

This classification includes accounts payable and accrued liabilities, and long-term debt. Financial liabilities at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial liabilities at amortized cost, are added to or deducted from the fair value on initial recognition. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company does not have any financial instruments classified as fair value through other comprehensive income.

Fair value of financial instruments

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

As at June 30, 2023, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term debt. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost and their fair values approximate carrying values.

3. Revolving credit facility

The Company entered into a credit facility (the "Credit Facility") with Royal Bank of Canada on February 28, 2023. The Credit Facility provides the Company with up to \$35 million. The Credit Facility is structured as a \$15 million Senior Secured Revolving Term Loan (the "Term Loan") with an additional accordion option to be increased by \$10 million. Additionally, the Credit Facility has a \$10 million Senior Secured Revolving Credit Facility (the "Revolving Loan"). The initial term of the Term Loan is three years and the Revolving Loan is payable on demand. The Credit Facility bears interest at market prevailing rates once drawn upon.

As at June 30, 2023, there were no amounts drawn on the Credit Facility.

4. 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 the following share-based compensation plans: The Stock Option Plan ("SOP"), the Employee and Director Share Purchase Plan ("ESPP"), and the Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") Plan. Full descriptions of the share-based compensation plans are included in Note 11 "Share Capital" to the Company's annual consolidated financial statements as at and for the year ended December 31, 2022.

Share purchase plan

The Company's ESPP allows employees and directors to share in the growth of the Company through share ownership. Through the ESPP, employees and directors may contribute amounts to purchase shares of the Company at a 15% discount from the prevailing trading price. Plan members must hold their shares for a period of at least six months before they can be sold.

During the three months ended June 30, 2023, 3,949 shares were issued under the ESPP (three months ended June 30, 2022 – 6,427) at a weighted average trading price of CDN\$3.51 (three months ended June 30, 2022 – CDN \$2.39). Included in share-based compensation expense is \$2 (three months ended June 30, 2022 – \$2), which is the discount on the shares issued during the period.

During the six months ended June 30, 2023, 7,687 shares were issued under the ESPP (six months ended June 30, 2022 – 15,526) at a weighted average trading price of CDN\$3.61 (six months ended June 30, 2022 – CDN \$2.09). Included in share-based compensation expense is \$4 (six months ended June 30, 2022 – \$4), which is the discount on the shares issued during the period.

Normal course issuer bid

On September 19, 2022, the Company announced that the TSX had approved the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time up to September 21, 2023, up to an aggregate of 1,403,293 of its issued and outstanding common shares, being 10% of its public float of 14,032,934 common shares as of September 8, 2022.

During the six months ended June 30, 2023, the Company purchased for cancellation 118,182 common shares (six months ended June 30, 2022 – 864,400) at an average price of CDN\$3.67 per common share (six months ended June 30, 2022 – CDN\$2.20). The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by \$252 (six months ended June 30, 2022 – \$984), which was recorded in retained earnings.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2023 to June 30, 2023:

	Number of options (000s)	Weighted average exercise price (CDN \$)
Balance, January 1, 2023	773	2.37
Granted during the period	352	3.62
Exercised during the period	(69)	1.45
Forfeited/expired during the period	(104)	2.24
Balance, June 30, 2023	952	3.01

As at June 30, 2023, 298,038 options were fully vested and exercisable (December 31, 2022 – 252,554).

During the six months ended June 30, 2023, the Company granted 352,490 stock options under the SOP (six months ended June 30, 2022 – 236,518). 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 16, 2023	227,490	3.75	2.38	3.66%	4.9 years	76.0%
April 24, 2023	65,000	3.37	2.12	3.15%	4.9 years	76.0%
June 21, 2023	60,000	3.69	2.25	3.56%	4.9 years	72.0%

The total stock option expense for the three and six months ended June 30, 2023 is \$118 and \$170, respectively (three and six months ended June 30, 2022 – \$16 and \$26, respectively).

The following information relates to stock options that were outstanding as at June 30, 2023:

Range of exercise prices (CDN \$)	Number of options (000s)	Weighted average remaining contractual life	Weighted average exercise price (CDN \$)
0.72 – 1.48	113	3.81 years	0.93
2.17 – 5.24	799	5.58 years	3.52
5.25 – 6.19	40	3.13 years	6.19
	952	5.26 years	3.17

During the three months ended June 30, 2023, 32,753 stock options were exercised (three months ended June 30, 2022 – 37,000) for gross proceeds of \$21 (three months ended June 30, 2022 – \$39). The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options.

During the six months ended June 30, 2023, 69,311 stock options were exercised (six months ended June 30, 2022 – 37,000) for gross proceeds of \$75 (six months ended June 30, 2022 – \$40).

Restricted Share Unit and Performance Share Unit Plan

On May 13, 2015, the Company adopted an 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. The fair value of RSUs granted is defined as the Company's share price on the date of the grant. There are no PSUs outstanding as at June 30, 2023.

A summary of the RSUs granted and outstanding as at June 30, 2023 is as follows:

	RSUs number of units (000s)
Balance, January 1, 2023	399
Granted during the period	281
Vested during the period	(261)
Forfeited/cancelled during the period	(68)
Balance, June 30, 2023	351

The total expense for RSUs for the three months ended June 30, 2023 is \$89 (three months ended June 30, 2022 – \$29). The total expense for the six months ended June 30, 2023 is \$479 (six months ended June 30, 2022 – \$46)

5. Licensing Revenue

The Company earns licensing revenue from both product royalties and product sales from its commercial partners. The breakdown is as follows:

	Three months ended June 30, 2023 \$	Three months ended June 30, 2022 \$	Six months ended June 30, 2023 \$	Six months ended June 30, 2022 \$
Licensing revenue				
Royalty revenue	1,491	1,418	2,905	3,106
Licensing product sales	679	628	941	1,038
Total licensing revenue	2,170	2,046	3,846	4,144

6. Expenses by nature

Selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income include the following categories of expenses by nature and function:

	Three months ended June 30, 2023 \$	Three months ended June 30, 2022 \$	Six months ended June 30, 2023 \$	Six months ended June 30, 2022 \$
Employee compensation	818	356	1,322	764
Professional fees	428	404	904	889
Data management and market research	73	38	105	74
Regulatory and pharmacovigilance	72	92	176	194
Insurance	56	39	111	124
Other administrative costs	46	32	92	89
	1,493	961	2,710	2,134

7. Compensation of key management

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
	\$	\$	\$	\$
Salaries, bonuses and benefits	137	180	385	400
Share-based compensation	163	36	599	56
Directors' fees	55	72	112	137
	355	288	1,096	593

The interim Chief Executive Officer of the Company did not receive cash compensation in the capacity as an executive, however received share-based compensation, and received directors fees in the capacity as Chairman of the Board.

8. Net income per common share

Net income 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 June 30, 2023 was 25,339,856 (three months ended June 30, 2022 – 25,434,467). The weighted average number of common shares outstanding for the six months ended June 30, 2023 was 25,228,728 (six months ended June 30, 2022 – 25,621,518).

Diluted net income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the three months ended June 30, 2023 was 25,723,082 (three months ended June 30, 2022 – 25,923,619). The dilutive weighted average for the six months ended June 30, 2023 was 25,614,592 (six months ended June 30, 2022 – 26,107,106).

9. Income tax expense

Income tax expense is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction, taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax expense for the three and six months ended June 30, 2023 was \$99 and \$181, respectively (three and six months ended June 30, 2022 – \$1,175 and \$1,948, respectively).

As at June 30, 2023, the Company has recognized deferred tax assets in the condensed interim consolidated statements of financial position of \$17,089 (December 31, 2022 – \$16,674).

10. Commitments and contingencies

Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors and officer's liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

Executive employment agreements allow for additional payments if a change of control occurs or for termination with or without cause.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the

Company or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined.

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.

Development milestones

The Company has development and regulatory milestone payments of up to \$4,050 related to the MOB-015 pipeline product for the treatment of nail fungus ("MOB-015"). Additionally, MOB-015 has up to \$10,000 of potential sales milestone payments if certain sales thresholds are reached, and the Company will be subject to payment of a royalty on net sales.

The Company has development and regulatory milestone payments of CDN\$1,000 related to its near-term pipeline product, CF-101 Piclidenoson in the treatment of moderate to severe psoriasis, that become payable upon achievement of certain clinical trial and regulatory approval metrics.

Lease obligation

The Company has an office lease for its corporate operations head office. The term of the lease is five years and commenced on June 1, 2022. The undiscounted commitment for the remaining lease term as at June 30, 2023 is approximately \$427 (December 31, 2022 – \$463).

Licensing agreements with Galephar

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement (the "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 countries. In accordance with the Agreement, the Company retains 50% of all revenue from licensing and distribution arrangements entered into with respect to the CIP Products, with the other 50% due to Galephar. Galephar retains the right to manufacture and supply the CIP Products. With respect to licensing and distribution arrangements, the Company manages the product supply arrangements with commercial partners and Galephar; product is shipped directly from Galephar to the respective commercial partners. Where the Company has opted to market and sell the CIP Product itself, the Company purchases the finished goods from Galephar directly.

With respect to CIP-ISOTRETINOIN, the Company has entered into licensing and distribution arrangements for U.S. and Mexico, 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 and CIP-TRAMADOL ER in the U.S. The Company has opted to market and sell CIP-TRAMADOL ER directly in Canada effective April 2022.

During the three and six months ended June 30, 2023, the Company paid royalties of \$1,336 and \$2,916, respectively (three and six months ended June 30, 2022 – \$1,783 and \$3,874, respectively). As at June 30, 2023, the Company had royalties payable of \$1,681 (as at December 31, 2022 – \$1,580) to Galephar. Amounts payable to Galephar are remitted quarterly, after the Company collects from its licensing partners. Accordingly, the Company's accounts receivable have a corresponding balance representing amounts owed by its licensing partners.

11. Segmented information

The Company's operations are categorized into one reporting segment, being specialty pharmaceuticals.

During the three and six months ended June 30, 2023, the Company generated approximately 59% and 62%, respectively (three and six months ended June 30, 2022 – 63% and 62%, respectively), of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.