



Cipher Pharmaceuticals Inc.

Condensed interim consolidated financial statements
Unaudited

For the three and nine months ended September 30, 2021

**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 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

	September 30, 2021 \$	December 31, 2020 \$
Assets		
Current assets		
Cash	15,628	9,142
Accounts receivable	6,939	9,220
Inventory	1,403	892
Prepaid expenses and other assets	640	875
Total current assets	24,610	20,129
Property and equipment, net	6	1,907
Intangible assets, net	3,780	4,178
Goodwill	15,706	15,706
Deferred tax assets	2,291	2,356
Total assets	46,393	44,276
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities [notes 7, 10 & 12]	4,225	6,828
Income taxes payable [note 9]	4,706	2,645
Contract liability	616	307
Current portion of lease obligation [note 10]	—	137
Total current liabilities	9,547	9,917
Derivative financial instrument	—	5
Lease obligation [note 10]	—	1,712
Total liabilities	9,547	11,634
Shareholders' equity		
Share capital [note 3]	18,385	18,702
Contributed surplus	5,076	5,055
Accumulated other comprehensive loss	(9,514)	(9,514)
Retained earnings	22,899	18,399
Total shareholders' equity	36,846	32,642
Total liabilities and shareholders' equity	46,393	44,276

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

Chair of the Board

(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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue				
Licensing revenue <i>[note 4]</i>	2,028	2,888	7,653	8,953
Product revenue	2,486	1,962	8,438	6,505
Net revenue	4,514	4,850	16,091	15,458
Operating expenses				
Cost of products sold	791	674	2,752	2,246
Research and development	—	50	88	88
Selling, general and administrative <i>[notes 5 & 6]</i>	1,703	1,640	4,087	4,398
Provision for legal settlement <i>[note 7]</i>	—	—	1,250	—
Restructuring costs	—	147	—	147
Total operating expenses	2,494	2,511	8,177	6,879
Other expenses (income)				
Interest expense	13	64	92	278
Change in fair value of derivative financial instrument	—	(12)	(5)	4
Loss on disposal of assets <i>[note 10]</i>	658	—	658	—
Loss on extinguishment of lease <i>[note 10]</i>	100	—	100	—
Interest income	(4)	(2)	(8)	(31)
Foreign exchange (gain) loss	(58)	16	(67)	(13)
Total other expenses	709	66	770	238
Income before income taxes from continuing operations	1,311	2,273	7,144	8,341
Current income tax expense <i>[note 9]</i>	486	326	2,141	3,504
Deferred income tax expense <i>[note 9]</i>	29	344	55	351
Total income tax expense	515	670	2,196	3,855
Income and comprehensive income from continuing operations	796	1,603	4,948	4,486
Income and comprehensive income from discontinued operations	—	—	—	164
Net income and comprehensive income for the period	796	1,603	4,948	4,650
Income from continuing operations per common share <i>[note 8]</i>				
Basic	0.03	0.06	0.19	0.17
Diluted	0.03	0.06	0.18	0.16
Income from discontinued operations per common share <i>[note 8]</i>				
Basic	—	—	—	0.01
Diluted	—	—	—	0.01

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]

For the nine months ended September 30,

	Share capital		Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	[000s]	\$	\$	\$	\$	\$
Balance, January 1, 2021	26,973	18,702	5,055	(9,514)	18,399	32,642
Net income for the period	—	—	—	—	4,948	4,948
Shares issued under the share purchase plan <i>[note 3]</i>	35	39	—	—	—	39
Shares issued under the Restricted Share Unit plan	90	79	(79)	—	—	—
Exercise of stock options <i>[note 3]</i>	33	42	(14)	—	—	28
Share-based compensation expense <i>[note 3]</i>	—	—	114	—	—	114
Purchase of common shares under common share repurchase plan <i>[note 3]</i>	(760)	(477)	—	—	(448)	(925)
Balance, September 30, 2021	26,371	18,385	5,076	(9,514)	22,899	36,846
Balance, January 1, 2020	26,991	18,677	4,981	(9,514)	13,867	28,011
Net income for the period	—	—	—	—	4,650	4,650
Shares issued under the share purchase plan <i>[note 3]</i>	46	36	—	—	—	36
Shares issued under the Restricted Share Unit plan	22	38	(38)	—	—	—
Share-based compensation expense <i>[note 3]</i>	—	—	134	—	—	134
Purchase of common shares under common share repurchase plan <i>[note 3]</i>	(30)	(18)	—	—	(8)	(26)
Balance, September 30, 2020	27,029	18,733	5,077	(9,514)	18,509	32,805

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]

For the nine months ended September 30,

	2021	2020
	\$	\$
Operating activities		
Net income for the period from continuing operations	4,948	4,486
Add (deduct) items not affecting cash:		
Depreciation of property and equipment	151	211
Amortization of intangible assets	398	692
Share-based compensation	114	139
Foreign exchange (gain) on cash and lease obligation	(208)	(59)
Change in fair value of derivative financial instrument	(5)	4
Interest on long term liabilities	92	320
Loss on disposal of assets	658	—
Loss on extinguishment of lease	100	—
Deferred income taxes	65	351
	6,313	6,144
Changes in working capital balances related to operations:		
Accounts receivable	2,281	(2,863)
Inventory	(511)	101
Prepaid expenses and other assets	205	57
Accounts payable and accrued liabilities	(500)	1,904
Contract liability	309	135
Cash provided by operating activities	8,097	5,478
Investing activities		
Acquisition of intangible assets	—	(750)
Cash used in investing activities	—	(750)
Financing activities		
Interest payments	—	(159)
Principal repayments	—	(6,000)
Payment of lease obligations	(165)	(200)
Lease inducement payment	(663)	—
Proceeds from shares issued under the share purchase plan	39	30
Purchase of common shares under a common share repurchase plan	(925)	(25)
Exercise of stock options	28	—
Cash used in financing activities	(1,686)	(6,354)
Net increase (decrease) in cash during the period	6,411	(1,626)
Impact of foreign exchange gain on cash	75	11
Cash, beginning of period	9,142	6,346
Cash, end of period	15,628	4,731

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

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

1. Nature of operations

Cipher Pharmaceuticals Inc. ["Cipher"] and its subsidiaries [together the "Company"] is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late-stage products. The Company acquires products that 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 licensing and acquisitions. Cipher was incorporated under the *Business Corporations Act* (Ontario) on January 9, 2004 and is located at 209 Oak Park Blvd., Suite 501, Oakville, 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 annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS, and are available on SEDAR at www.sedar.com. The condensed interim consolidated financial statements are based on accounting policies as described in the 2020 annual consolidated financial statements, except for the adoptions of new standards effective as of January 1, 2021.

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. On February 1, 2020, Cardiome Pharma Corp. was amalgamated with Cipher. All significant intercompany balances and transactions have been eliminated upon consolidation.

The Board of Directors approved these condensed interim consolidated financial statements on November 11, 2021.

The Company is closely monitoring the developments of the coronavirus disease ["COVID-19"] situation. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, severe travel restrictions and extreme fluctuations in financial and commodity markets. Additional measures may be implemented by one or more governments in jurisdictions where the Company operates. Labour shortages due to illness, Company or government-imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of the Company's operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain COVID-19 or remedy its impact, among others.

The actual and threatened spread of COVID-19 globally could also have a material adverse effect on the regional economies in which the Company operates, could negatively impact stock markets, including any future trading price of the Company's shares, could adversely impact the Company's ability to raise capital, could cause continued interest rate volatility and movements that could make obtaining financing or renegotiating the terms of the Company's existing financing more challenging or more expensive.

Any of these developments, and others, could have a material adverse effect on the Company's business and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

reasonably possible that the estimates in the financial statements will change in the near term and the effect of the change will be material. Potential impacts may include, but are not limited to, impairment of long-lived assets and a change in the estimated credit loss on accounts receivable.

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 September 30, 2021, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the condensed interim consolidated statements of income and comprehensive income and is classified as Level 2 [as defined under IFRS]. Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values.

3. Share capital

Authorized share capital

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

The Company has three 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"]. Full descriptions of the three share-based compensation plans are included in note 14 "Share Capital" to the Company's annual consolidated financial statements as at and for the year ended December 31, 2020.

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 September 30, 2021, 7,661 shares were issued under the ESPP [three months ended September 30, 2020 – 13,077] at weighted average trading price of CDN\$1.92 [three months ended September 30, 2020 – CDN\$1.27]. Included in share-based compensation expense is \$2 [three months ended September 30, 2020 – \$2], which is the discount on the shares issued during the period.

During the nine months ended September 30, 2021, 36,356 shares were issued under the ESPP at a weighted average trading price of CDN\$1.33 [nine months ended September 30, 2020 – 46,084]. Included in share-based compensation expense is \$6 [nine months ended September 30, 2020 – \$6], which is the discount on the shares issued during the period.

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

Normal course issuer bid

On August 12, 2020, 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 August 12, 2021, up to an aggregate of 1,613,592 of its issued and outstanding common shares, being 10% of its public float of 16,135,923 common shares as of August 5, 2020. On September 8, 2021, the Company announced that the TSX had approved the renewal of its normal course issuer bid under which the Company may, if considered advisable, purchase for cancellation, from time to time up to September 9, 2022, up to an aggregate of 1,541,445 of its issued and outstanding common shares, being 10% of its public float of 15,414,450 common shares as of August 27, 2021. During the nine months ended September 30, 2021, the Company purchased for cancellation 760,600 common shares at an average price of CDN\$1.52 per common share. The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by \$448, which was debited to retained earnings.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2021 to September 30, 2021:

	Number of options [000s]	Weighted average exercise price [CDN\$]
Balance, January 1, 2021	601	2.54
Granted during the period	37	0.90
Exercised	(32)	1.10
Forfeited/expired during the period	(52)	4.20
Balance, September 30, 2021	554	2.36

As at September 30, 2021, 305,144 options were fully vested and exercisable [December 31, 2020 – 268,438].

During the nine months ended September 30, 2021, the Company granted 37,219 stock options under the SOP. The options vest over a four-year period from the grant date, at a rate of 25% per year and expire seven years from the day of grant. The expected volatility is based on the Company's historical volatility over a comparable period based on expected life. There is no expected dividend. The exercise price and Black-Scholes assumptions are as follows:

Grant date	Number granted	Exercise price [CDN\$]	Black-Scholes value [CDN\$]	Risk-free interest rate	Expected life	Expected volatility
March 18, 2021	37,219	0.90	0.54	1.09%	4.9 years	67.6%

The total stock option expense for the three and nine months ended September 30, 2021 is \$13 and \$45, respectively [three and nine months ended September 30, 2020 – \$20 and \$70].

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

The following information relates to stock options that were outstanding as at September 30, 2021:

Range of exercise prices [CDN \$]	Number of options [000s]	Weighted average remaining contractual life [years]	Weighted average exercise price [CDN \$]
0.72 – 1.48	355	5.4	1.05
2.88 – 5.39	147	3.3	3.93
6.19 – 13.88	52	4.6	6.90
	554	4.7	2.36

During the three months ended September 30, 2021, 16 stock options were exercised [three months ended September 30, 2020 – nil] for gross proceeds of CDN\$24. 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 nine months ended September 30, 2021, 32 stock options were exercised [nine months ended September 30, 2020 – nil] for gross proceeds of CDN\$36.

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. There are no PSUs outstanding as at September 30, 2021.

A summary of the RSUs granted and outstanding as at September 30, 2021 is as follows:

	RSUs number of units [000s]
Balance, January 1, 2021	276
Granted during the period	30
Vested during the period	(90)
Forfeited/cancelled during the period	(3)
Balance, September 30, 2021	213

The total expense for RSUs for the three months ended September 30, 2021 is \$19 [three months ended September 30, 2020 – \$30]. The total expense for the nine months ended September 30, 2021 is \$69 [nine months ended September 30, 2020 – \$65].

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

4. Revenue

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$
Licensing revenue				
Royalty revenue	1,395	2,297	6,270	7,006
Licensing product sales	633	591	1,383	1,887
Milestone revenue	-	-	-	60
	2,028	2,888	7,653	8,953

5. Expenses by nature

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$
Employee salaries and benefits				
Salaries, bonuses and benefits	804	202	1,291	693
Share-based compensation	34	50	120	140
Termination benefits	-	147	-	144
	838	399	1,411	977

For the three and nine months ended September 30, 2021 and 2020, all employee salaries and benefits are recorded in selling, general and administrative expenses.

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

6. 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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$
Salaries, bonuses and benefits	97	80	280	314
Share-based compensation	24	27	91	88
Directors' fees	68	53	197	158
	189	160	568	560

The interim Chief Executive Officer of the Company did not receive compensation in that capacity; however, directors' fees were paid.

7. Provision for legal settlement

In connection with the impairment of the Trulance intangible asset as at December 31, 2020, the Company was subject to additional damages under a subsequent phase of arbitration. During the three months ended March 31, 2021, the Company accrued an amount of \$1,250 as an estimate of the additional amounts owing under the arbitration. An amount of \$240 was previously accrued as at December 31, 2020. During the period ended June 30, 2021, the Company executed a settlement agreement in full settlement of the dispute and paid the full amount of the settlement amount of \$1,500.

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 September 30, 2021 was 26,505,145 [three months ended September 30, 2020 – 27,050,679]. The weighted average number of shares outstanding for the nine months ended September 30, 2021 was 26,719,725 [for the nine months ended September 30, 2020 – 27,030,363].

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 September 30, 2021 was 26,994,181 [three months ended September 30, 2020 – 27,490,558]. The diluted weighted average number of shares outstanding for the nine months ended September 30, 2021 was 27,143,797 [for the nine months ended September 30, 2020 – 27,333,431].

Notes to condensed interim consolidated financial statements

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

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 nine months ended September 30, 2021 was \$515 and \$2,196, respectively compared to \$670 and \$3,855 for the three and nine months ended September 30, 2020.

As at September 30, 2021, the Company has recognized deferred tax assets in the condensed interim consolidated statements of financial position of \$2,291 [December 31, 2020 - \$2,356].

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 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.

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.

The Company has development and regulatory milestone payments of up to \$4,050 related to its near-term pipeline product, MOB-015 that become payable upon achievement. MOB-015 also has net sales milestones payable of \$10,000 upon achievement.

Lease obligation

The Company had an office lease for its corporate operations head office. The term of the lease was 10 years and three months and commenced on January 1, 2019. During the three months ended September 30, 2021, the Company assigned the lease to an arm's length third party and paid an inducement payment of CDN\$775. The Company incurred a non-recurring loss on extinguishment of lease expense in the three months ended September 30, 2021 of \$100, in addition, the Company recorded a loss on disposal of assets related to the unamortized leasehold improvements, furniture and fixtures and the office lease – right-of-use asset of \$658.

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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Licensing agreements with Galephar

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement [the "Agreement"] with Galephar, a Puerto Rico based pharmaceutical research and manufacturing company. Under the Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER [the "CIP Products"] in various countries. In accordance with the Agreement, the Company retains 50% of all revenue from licensing and distribution arrangements entered into with respect to the CIP Products, with the other 50% due to Galephar. Galephar retains the right to manufacture and supply the CIP Products. With respect to licensing and distribution arrangements, the Company manages the product supply arrangements with their respective marketing partners and Galephar; product is shipped directly from Galephar to the respective marketing partners. Where the Company has opted to market and sell the CIP Product directly, the Company purchases the finished goods from Galephar directly.

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

During the three and nine months ended September 30, 2021, the Company paid royalties of \$2,564 [three months ended September 30, 2020 – \$764] and \$9,182 [nine months ended September 30, 2020 - \$2,134], respectively to Galephar. As at September 30, 2021, the amounts in accounts payable and accrued liabilities owed to Galephar were \$2,003 [December 31, 2020 – \$2,528]. 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. Prior to the disposal of the U.S. business, the Company managed its operations geographically in Canada and the United States, representing two segments. Following the disposal of the U.S. operations, the Company has one reportable segment.

The Company generated approximately 52% [2020 – 42%] of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.

12. Discontinued operations

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

As at September 30, 2021, the liabilities retained by the Company are \$10 [December 31, 2020 – \$10] recorded in accounts payable and accrued liabilities. During the nine-month period ended September 30, 2020, there was a reduction in the contract liability of \$164, due to fewer product returns than were provided for and the returns window related to those products having expired.