



Cipher Pharmaceuticals Inc.

**Condensed interim consolidated financial statements
Unaudited**

**For the three and nine months ended
September 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 September 30, 2023 \$	As at December 31, 2022 \$
Assets		
Current assets		
Cash and cash equivalents	42,086	28,836
Accounts receivable	6,701	6,802
Inventory	2,528	2,152
Prepaid expenses and other assets	447	371
Total current assets	51,762	38,161
Property and equipment, net	412	481
Intangible assets, net	1,885	2,754
Goodwill	15,706	15,706
Deferred tax assets (Note 9)	20,764	16,674
Total assets	90,529	73,776
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	7,110	4,107
Income taxes payable (Note 9)	5,237	4,904
Contract liability	281	257
Current portion of lease obligation (Note 10)	101	101
Total current liabilities	12,729	9,369
Lease obligation (Note 10)	252	327
Total liabilities	12,981	9,696
Shareholders' equity		
Share capital (Notes 4 & 12)	18,486	17,719
Contributed surplus	5,697	5,358
Accumulated other comprehensive loss	(9,514)	(9,514)
Retained earnings	62,879	50,517
Total shareholders' equity	77,548	64,080
Total liabilities and shareholders' equity	90,529	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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenue				
Licensing revenue <i>(Note 5)</i>	3,090	2,013	6,936	6,158
Product revenue	2,978	2,779	9,306	9,608
Net revenue	6,068	4,792	16,242	15,766
Operating expenses				
Cost of products sold	1,076	860	3,114	3,056
Research and development	10	—	110	66
Depreciation and amortization	269	338	954	648
Selling, general and administrative <i>(Notes 6 & 7)</i>	1,690	1,384	4,400	3,518
Total operating expenses	3,045	2,582	8,578	7,288
Other (income) expenses				
Interest income	(533)	(157)	(1,315)	(197)
Unrealized foreign exchange loss (gain)	434	72	(21)	130
Total other (income) expenses	(99)	(85)	(1,336)	(67)
Income before income taxes	3,122	2,295	9,000	8,545
Current income tax expense (recovery) <i>(Note 9)</i>	116	(586)	328	1,237
Deferred income tax (recovery) expense <i>(Note 9)</i>	(4,025)	227	(4,056)	353
Total income tax (recovery) expense	(3,909)	(359)	(3,728)	1,590
Net income and comprehensive income for the period	7,031	2,654	12,728	6,955
Income per share <i>(Note 8)</i>				
Basic	0.28	0.11	0.50	0.27
Diluted	0.27	0.10	0.50	0.27

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	—	—	—	—	12,728	12,728
Shares issued under the share purchase plan <i>(Note 4)</i>	11	31	—	—	—	31
Shares issued under the restricted share unit plan <i>(Note 4)</i>	261	497	(497)	—	—	—
Exercise of stock options <i>(Note 4)</i>	143	341	(132)	—	(10)	199
Share-based compensation expense <i>(Note 4)</i>	—	—	968	—	—	968
Purchase of common shares under common share repurchase plan <i>(Note 4)</i>	(167)	(102)	—	—	(356)	(458)
Balance, September 30, 2023	25,311	18,486	5,697	(9,514)	62,879	77,548
Balance, January 1, 2022	25,937	18,121	5,092	(9,514)	25,198	38,897
Net income for the period	—	—	—	—	6,955	6,955
Shares issued under the share purchase plan <i>(Note 4)</i>	21	37	—	—	—	37
Shares issued under the restricted share unit plan <i>(Note 4)</i>	97	90	(90)	—	—	—
Exercise of stock options <i>(Note 4)</i>	53	75	(25)	—	—	50
Share-based compensation expense <i>(Note 4)</i>	—	—	286	—	—	286
Purchase of common shares under common share repurchase plan <i>(Note 4)</i>	(1,014)	(625)	—	—	(1,154)	(1,779)
Balance, September 30, 2022	25,094	17,698	5,263	(9,514)	30,999	44,446

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)

	Nine months ended September 30,	
	2023	2022
	\$	\$
Operating activities		
Net income for the period	12,728	6,955
Add (deduct) items not affecting cash:		
Depreciation and amortization	954	648
Share-based compensation	968	169
Unrealized foreign exchange (gain) loss	(21)	130
Non-cash interest expense	7	4
Deferred income taxes	(4,056)	353
	10,580	8,259
Changes in working capital balances related to operations:		
Accounts receivable	101	440
Inventory	(376)	(619)
Prepaid expenses and other assets	(76)	231
Accounts payable and accrued liabilities	3,003	(309)
Income taxes payable	327	1,302
Contract liability	24	56
Cash provided by operating activities	13,583	9,360
Investing activities		
Purchase of property and equipment	—	(81)
Cash used in investing activities	—	(81)
Financing activities		
Payment of lease obligations <i>(Note 10)</i>	(75)	(32)
Proceeds from shares issued under the share purchase plan	31	37
Purchase of common shares under a common share repurchase plan	(458)	(1,779)
Exercise of stock options	199	50
Cash used in financing activities	(303)	(1,724)
Net increase in cash during the period	13,280	7,555
Impact of foreign exchange on cash and cash equivalents	(30)	(626)
Cash and cash equivalents, beginning of period	28,836	20,548
Cash and cash equivalents, end of period	42,086	27,477

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 acquisitions and in-licensing arrangements. Cipher was incorporated under the *Business Corporations Act* (Ontario) on January 9, 2004 and the Company's corporate office 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 November 9, 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.

Notes to condensed interim consolidated financial statements

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

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, 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 September 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.

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Notes to condensed interim consolidated financial statements

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

During the three months ended September 30, 2023, 3,688 shares were issued under the ESPP (three months ended September 30, 2022 – 6,685) at a weighted average trading price of CDN\$3.76 (three months ended September 30, 2022 – CDN\$2.46). Included in share-based compensation expense is \$2 (three months ended September 30, 2022 – \$2), which is the discount on the shares issued during the period.

During the nine months ended September 30, 2023, 11,375 shares were issued under the ESPP (nine months ended September 30, 2022 – 22,211) at a weighted average trading price of CDN\$3.66 (nine months ended September 30, 2022 – CDN\$2.20). Included in share-based compensation expense is \$6 (nine months ended September 30, 2022 – \$6), 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 nine months ended September 30, 2023, the Company purchased for cancellation 167,030 common shares (nine months ended September 30, 2022 – 1,014,262) at an average price of CDN\$3.69 per common share (nine months ended September 30, 2022 – CDN\$2.24). The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by \$356 (nine months ended September 30, 2022 – \$1,154), which was recorded in retained earnings.

The Company's normal course issuer bid expired on September 21, 2023 and was not renewed.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2023 to September 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	(152)	1.98
Forfeited/expired during the period	(107)	2.30
Balance, September 30, 2023	866	3.06

As at September 30, 2023, 255,035 options were fully vested and exercisable (December 31, 2022 – 252,554).

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Notes to condensed interim consolidated financial statements

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During the nine months ended September 30, 2023, the Company granted 352,490 stock options under the SOP (nine months ended September 30, 2022 – 386,518). 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 weighted average 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 nine months ended September 30, 2023 is \$132 and \$302, respectively (three and nine months ended September 30, 2022 – \$22 and \$49, respectively).

The following information relates to stock options that were outstanding as at September 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	88	3.47 years	0.92
2.17 – 5.24	738	5.60 years	3.40
5.25 – 6.19	40	2.80 years	6.19
	866	5.26 years	3.23

During the three months ended September 30, 2023, 82,411 stock options were exercised (three months ended September 30, 2022 – 16,200) for gross proceeds of \$134 (three months ended September 30, 2022 – \$9).

During the nine months ended September 30, 2023, 151,722 stock options were exercised (nine months ended September 30, 2022 – 53,000) for gross proceeds of \$209 (nine months ended September 30, 2022 – \$50).

The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options.

During the three and nine months ended September 30, 2023, certain stock options exercised were elected by the option holder to be net settled, whereby the holder received only the number of shares equivalent to the growth value of the vested options. There were 13,750 stock options exercised during the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 – nil) for which the option holder made this election, of which 8,518 of these stock options exercised were not issued as common shares to the option holder. These net settlements resulted in \$10 being recorded in retained earnings for the nine months ended September 30, 2023 (nine months ended September 30, 2022 – \$nil).

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

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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

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 September 30, 2023.

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

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

The total expense for RSUs for the three months ended September 30, 2023 is \$181 (three months ended September 30, 2022 – \$49). The total expense for the nine months ended September 30, 2023 is \$660 (nine months ended September 30, 2022 – \$94).

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 September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	\$	\$	\$	\$
Licensing revenue				
Royalty revenue	1,132	1,332	4,037	4,438
Licensing product sales	1,958	681	2,899	1,720
Total licensing revenue	3,090	2,013	6,936	6,158

Cipher Pharmaceuticals Inc.

Notes to condensed interim consolidated financial statements

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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 September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	\$	\$	\$	\$
Salaries and benefits compensation	413	502	1,082	1,181
Share-based compensation	315	84	968	169
Professional fees	601	402	1,505	1,291
Data management and market research	142	36	247	110
Regulatory and pharmacovigilance	120	153	296	346
Insurance	34	48	145	172
Other administrative costs	65	159	157	249
	1,690	1,384	4,400	3,518

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 September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	\$	\$	\$	\$
Salaries, bonuses and benefits	282	270	579	579
Share-based compensation	158	62	757	118
Directors' fees	33	39	105	133
	473	371	1,441	830

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 September 30, 2023 was 25,305,228 (three months ended September 30, 2022 – 25,151,888). The weighted average number of common shares outstanding for the nine months ended September 30, 2023 was 25,254,508 (nine months ended September 30, 2022 – 25,463,255).

Notes to condensed interim consolidated financial statements

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

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, 2023 was 25,699,188 (three months ended September 30, 2022 – 25,586,467). The dilutive weighted average for the nine months ended September 30, 2023 was 25,636,975 (nine months ended September 30, 2022 – 25,887,411).

9. Income tax expense (recovery)

Income tax expense (recovery) is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction, taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax recovery for the three and nine months ended September 30, 2023 was \$3,909 and \$3,728, respectively (three and nine months ended September 30, 2022 – \$359 income tax recovery and \$1,590 income tax expense, respectively).

As at September 30, 2023, the Company has recognized deferred tax assets in the condensed interim consolidated statements of financial position of \$20,764 (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 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.

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"), in Canada. 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.

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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 September 30, 2023 is \$390 (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 the 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 nine months ended September 30, 2023, the Company paid royalties of \$1,681 and \$4,597, respectively to Galephar (three and nine months ended September 30, 2022 – \$1,817 and \$5,691, respectively). As at September 30, 2023, the Company had royalties payable of \$2,197 (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 nine months ended September 30, 2023, the Company generated approximately 49% and 57%, respectively (three and nine months ended September 30, 2022 – 58% and 61%, respectively), of its net revenue within Canada, with the remainder primarily attributable to the U.S. There are no significant assets located outside of Canada.

12. Subsequent events

On September 5, 2023, the Company announced its intention to commence a substantial issuer bid (the “Offer” or “SIB”), which subsequently commenced on September 6, 2023 and was completed on October 11, 2023, pursuant to which the Company offered to purchase for cancellation up to CDN\$6,000 of its outstanding common shares. The Offer was made by way of a ‘modified Dutch auction’, which allowed shareholders who chose to participate in the Offer to individually select the price, within a range of not less than CDN\$3.95 per common share and not more

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than CDN\$4.75 per common share (in increments of CDN\$0.05 per common share), at which they were willing to sell their common shares. Upon expiry of the Offer, the Company determined the lowest purchase price (which was not to be more than CDN\$4.75 per common share and not less than CDN\$3.95 per common share) (the "Purchase Price") that allowed it to purchase the maximum number of common shares tendered to the Offer having an aggregate purchase price not exceeding CDN\$6,000.

On October 12, 2023, the Company announced the final results of its SIB, whereby the Company took up and paid for 1,290,321 common shares at a Purchase Price of CDN\$4.65 per common share, representing an aggregate purchase price of CDN\$6,000. The common shares taken up by the Company, representing 5.1% of the total issued and outstanding common shares prior to commencing the SIB, were purchased for cancellation.