Cipher Pharmaceuticals Inc.

Consolidated financial statements

For the years ended December 31, 2023 and 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Cipher Pharmaceuticals Inc.

Opinion

We have audited the consolidated financial statements of Cipher Pharmaceuticals Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of deferred tax assets

Refer to consolidated financial statements Note 3: Summary of material accounting policies, Note 4 (ii): Critical accounting estimates and judgments - Deferred income taxes, and Note 16: Income taxes.

As at December 31, 2023, the Company had a deferred tax asset balance of $19,887. At each reporting date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. The amount recorded is dependent on the Company’s expectation of future taxable income over a relevant period.

We consider the valuation of deferred tax assets to be a key audit matter as there is significant judgment required in forecasting future taxable income. Estimates of future taxable income rely on significant assumptions including forecasted revenue growth and expected operating and general expenditures.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to the valuation of deferred tax assets included the following, among others:

- We inspected management’s future taxable income forecast and evaluated the underlying assumptions by comparing to publicly available market information, and assessing the reasonableness of forecasted revenue for existing and new products.

- We evaluated the reasonableness of the operating and general expenditures by comparing to historical trends of the Company and assessing the accuracy of management's previous forecasts.
- With the assistance of internal tax specialists, we assessed the reasonableness of deductions or additions to future taxable income, as well as the tax rates used and the mathematical accuracy of the calculation.
- We evaluated the adequacy of the disclosures in the consolidated financial statements in relation to this matter.

Other Matter

The consolidated financial statements of Company for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 16, 2023.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Danny Tomassini.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 14, 2024
Toronto, Ontario

Cipher Pharmaceuticals Inc.

Consolidated statements of financial position

(in thousands of United States dollars)

	As at December 31, 2023	As at December 31, 2022
	$	$
Assets		
Current assets		
Cash and cash equivalents	**39,825**	28,836
Accounts receivable	**5,088**	6,802
Inventory *(Note 6)*	**2,982**	2,152
Prepaid expenses and other assets	**378**	371
Total current assets	**48,273**	38,161
Property and equipment, net *(Note 7)*	**402**	481
Intangible assets, net *(Note 8)*	**1,763**	2,754
Goodwill	**15,706**	15,706
Deferred tax assets *(Note 16)*	**19,887**	16,674
Total assets	**86,031**	73,776
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *(Note 5)*	**4,639**	4,107
Income taxes payable *(Note 16)*	**—**	4,904
Contract liability *(Note 9)*	**519**	257
Current portion of lease obligation *(Note 10)*	**94**	101
Total current liabilities	**5,252**	9,369
Lease obligation *(Note 10)*	**259**	327
Total liabilities	**5,511**	9,696
Shareholders' equity		
Share capital *(Note 12)*	**18,012**	17,719
Contributed surplus	**5,755**	5,358
Accumulated other comprehensive loss	**(9,514)**	(9,514)
Retained earnings	**66,267**	50,517
Total shareholders' equity	**80,520**	64,080
Total liabilities and shareholders' equity	**86,031**	73,776

Commitments and contingencies *(Note 17)*

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

Approved on behalf of the Board:

(Signed) "Craig Mull"
Craig Mull
Chairman

(Signed) "Harold Wolkin"
Harold Wolkin
Director

Cipher Pharmaceuticals Inc.

Consolidated statements of income and comprehensive income

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

	For the years ended December 31,	
	2023	2022
	$	$
Revenue		
Licensing revenue *(Note 13)*	**8,483**	8,145
Product revenue	**12,679**	12,530
Net revenue	**21,162**	20,675
Operating expenses		
Cost of products sold *(Note 6)*	**4,069**	3,992
Research and development	**139**	98
Depreciation and amortization	**1,227**	989
Selling, general and administrative *(Notes 14 & 15)*	**5,694**	4,546
Total operating expenses	**11,129**	9,625
Other (income) expenses		
Interest income	**(1,870)**	(464)
Unrealized foreign exchange (gain) loss	**(778)**	35
Total other (income) expenses	**(2,648)**	(429)
Income before income taxes	**12,681**	11,479
Current income tax recovery *(Note 16)*	**(4,965)**	(847)
Deferred income tax recovery *(Note 16)*	**(2,737)**	(14,310)
Total income tax recovery	**(7,702)**	(15,157)
Net income and comprehensive income for the year	**20,383**	26,636
Income per share		
Basic income per share	**0.82**	1.05
Basic weighted average number of shares outstanding	**25,004,838**	25,376,290
Diluted income per share	**0.80**	1.03
Diluted weighted average number of shares outstanding	**25,422,202**	25,799,159

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

Cipher Pharmaceuticals Inc.

Consolidated statements of changes in shareholders' equity

(in thousands of United States dollars)

	Share capital		Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	(000s)	$	$	$	$	$
Balance, January 1, 2023	**25,062**	**17,719**	**5,358**	**(9,514)**	**50,517**	**64,080**
Net income for the year	**—**	—	—	—	**20,383**	**20,383**
Shares issued under the share purchase plan *(Note 12)*	**14**	**41**	—	—	—	**41**
Shares issued under the restricted share unit plan *(Note 12)*	**261**	**497**	**(497)**	—	—	—
Exercise of stock options *(Note 12)*	**198**	**694**	**(296)**	—	**(13)**	**385**
Share-based compensation expense *(Note 12)*	**—**	—	**1,190**	—	—	**1,190**
Purchase of common shares under common share repurchase plan *(Note 12)*	**(257)**	**(158)**	—	—	**(718)**	**(876)**
Purchase of common shares under substantial issuer bid *(Note 12)*	**(1,290)**	**(781)**	—	—	**(3,902)**	**(4,683)**
Balance, December 31, 2023	**23,988**	**18,012**	**5,755**	**(9,514)**	**66,267**	**80,520**
Balance, January 1, 2022	25,937	18,121	5,092	(9,514)	25,198	38,897
Net income for the year	—	—	—	—	26,636	26,636
Shares issued under the share purchase plan *(Note 12)*	25	47	—	—	—	47
Shares issued under the restricted share unit plan *(Note 12)*	102	94	(94)	—	—	—
Exercise of stock options *(Note 12)*	91	128	(43)	—	—	85
Share-based compensation expense *(Note 12)*	—	—	403	—	—	403
Purchase of common shares under common share repurchase plan *(Note 12)*	(1,093)	(671)	—	—	(1,317)	(1,988)
Balance, December 31, 2022	25,062	17,719	5,358	(9,514)	50,517	64,080

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

Cipher Pharmaceuticals Inc.

Consolidated statements of cash flows

(in thousands of United States dollars)

	For the years ended December 31,	
	2023	2022
	$	$
Operating activities		
Net income for the year	**20,383**	26,636
Add (deduct) items not affecting cash:		
Depreciation and amortization	**1,227**	989
Share-based compensation	**1,190**	403
Unrealized foreign exchange (gain) loss	**(778)**	35
Remeasurement of lease obligation	**(19)**	—
Non-cash interest expense	**9**	6
Deferred income taxes	**(2,737)**	(14,310)
	19,275	13,759
Changes in working capital balances related to operations:		
Accounts receivable	**1,714**	(144)
Inventory	**(830)**	(502)
Prepaid expenses and other assets	**11**	100
Accounts payable and accrued liabilities	**532**	(1,448)
Income taxes payable	**(4,965)**	(847)
Contract liability	**262**	(193)
Cash provided by operating activities	**15,999**	10,725
Investing activities		
Purchase of property and equipment	**(21)**	(81)
Payments for intangible assets	**(123)**	—
Cash used in investing activities	**(144)**	(81)
Financing activities		
Payment of lease obligations *(Note 10)*	**(111)**	(56)
Proceeds from shares issued under the share purchase plan *(Note 12)*	**41**	47
Purchase of common shares under a common share repurchase plan *(Note 12)*	**(876)**	(1,988)
Purchase of common shares under a substantial issuer bid *(Note 12)*	**(4,683)**	—
Exercise of stock options *(Note 12)*	**385**	85
Cash used in financing activities	**(5,244)**	(1,912)
Net increase in cash during the year	**10,611**	8,732
Impact of foreign exchange on cash and cash equivalents	**378**	(444)
Cash and cash equivalents, beginning of year	**28,836**	20,548
Cash and cash equivalents, end of year	**39,825**	28,836

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

Notes to consolidated financial statements

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

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, except for certain financial instruments, which are measured at fair value as described below. Management assesses the Company's ability to continue as a going concern at each reporting date, using available quantitative and qualitative information.

Certain prior period balances have been reclassified to conform with the current period financial statement presentation. Specifically, within Note 8 – Intangible assets, the opening balances for cost and accumulated amortization as at January 1, 2022 have been amended to remove the value of fully depreciated and disposed of assets, which occurred prior to this date.

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

The Board of Directors approved these consolidated financial statements on March 13, 2024.

3. Summary of material accounting policies

Licensing revenue

Licensing revenue is comprised of royalties and licensing product sales.

Royalty revenue is recognized in the period in which the Company earns the royalty. Licensing partners report royalty revenue monthly and typically remit payment within 30 days after each quarter end. Royalty revenue is earned on the net sales reported by the Company's licensing partners. Net sales result after a number of deductions that are generally estimates and are recorded in the same period that the revenues are recognized, with adjustments made to these estimates in future periods in order to reflect the actual amounts once precise information is available to the Company. The deductions are primarily comprised of rebates, discounts, promotional incentives and product returns that are applied to gross sales to arrive at net sales. These deductions represent best estimates by the Company's licensing partners of the related obligations. Amounts recorded for sales deductions can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

Licensing product sales from Galephar Pharmaceutical Research, Inc. ("Galephar"), the Company's contract manufacturing organization, are recognized when the finished products are shipped to the Company's licensing partners, at which time control is transferred.

Notes to consolidated financial statements

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

The Company's licensing agreements also contain upfront payments, pre-and post-commercialization milestones of which the Company recognizes 50% as revenue and remits the other 50% to Galephar or other third parties as may be assigned from time to time.

Accounting for costs to fulfil a contract

The Company may incur costs that are directly related to fulfilling a contract. While there were no such costs incurred in the current and comparative period, such amounts will be capitalized to prepaids and other assets in the consolidated statements of financial position.

Financing component

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

Product revenue

Product revenue is recognized upon shipment of product to the Company's customers. The transaction price is based on list prices that are published annually. Revenue is recorded on a net basis, representing the amounts receivable from customers after the deduction for discounts, returns and early payment discounts. The methodology and assumptions used to estimate discounts, returns and early payment discounts are monitored and adjusted in light of contractual and historical information. Invoices are generated at the time of product shipment and are payable within 30 days.

The provision for returns is an estimate used in the recognition of revenue. The Company has a returns policy that allows customers to return product within a specified period prior to and after the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue and recorded as a contract liability on the consolidated statements of financial position. The Company estimates provisions for returns based upon historical experience, if applicable, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and adjusts when it believes that actual product returns may differ from established reserves.

Translation of foreign currencies

The consolidated financial statements are presented in United States dollars ("U.S. dollars"), which is the Company's functional currency. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars using the exchange rate in effect at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated using the rate in effect at the balance sheet date and non-monetary items that are measured in terms of historical cost in a foreign currency are translated at historical exchange rates. Related exchange gains and losses are included in other (income) expenses in the consolidated statements of income and comprehensive income.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill is tested for impairment at least annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the groups of CGUs that contain goodwill is compared to its recoverable amount, which is the higher of the fair value less costs to dispose or value in use. Any impairment is recognized immediately as an expense and is not subsequently reversed. The estimated recoverable amount may be determined utilizing one or more methods as appropriate. For the impairment test during the year ended December 31, 2023, the Company determined the recoverable amount to be the fair value less costs of disposal. In calculating the recoverable amount, the Company took the market approach by considering the market capitalization and earnings multiple approach (2022 – market approach).

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset, and the net amount reported on the consolidated statements of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. This category includes derivative financial instruments. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of income and comprehensive income. Gains and losses arising from changes in fair value are presented in the consolidated statements of income and comprehensive income in the period in which they arise.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, and accounts receivable, which are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if needed.

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 December 31, 2023, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash and cash equivalents

Cash and cash equivalents include deposits held with banks, as well as short-term investments with a maturity term of 90 days or less.

Accounts receivable

Accounts receivable consist of amounts due from customers for product sales and from licensing partners for royalties and licensing product sales in the normal course of business. Trade receivables are carried at amounts due, net of expected lifetime credit losses**.** The Company has adopted the simplified approach for estimating credit losses as historical credit losses have been insignificant.

Inventory

Inventory, which is comprised of finished goods, is valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. Net realizable value is the estimated selling price less applicable selling cost. If the carrying value exceeds net realizable amount, a provision is recognized. The provision may be reversed in a subsequent period if the circumstances which caused the write down no longer exists.

An inventory provision is estimated by management based on expected future sales and expiry dates of finished goods and is recorded in cost of products sold. Subsequent changes to provisions are recorded in cost of products sold in the consolidated statements of income and comprehensive income.

Prepaid expenses and other assets

Prepaid expenses consist of amounts paid in advance for services that have future value to the Company, such as insurance policy premiums, subscription-based fees, U.S. Food and Drug Administration ("FDA") fees and deposits.

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. The useful lives of property and equipment are reviewed at least annually, and the depreciation charge is adjusted for prospectively. Depreciation is computed using the straight-line method, over the following estimated useful lives of the assets or lease terms:

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	Over the term of the lease
Office lease	Over the term of the lease

Intangible assets

Intangible assets include product rights that consist of marketing and other rights relating to products and licensing rights and these are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization commences when the intangible asset is available for use. Intangible assets have a finite life and are amortized using the straight-line method over their estimated useful lives. The useful lives of the intangible assets are reviewed at least annually. Amortization is recognized on a straight-line basis over the contract term or life of the patent, as applicable.

Impairment of non-financial assets

Indefinite-lived intangible assets or intangible assets not ready for use are tested at least annually for impairment or when indicators of impairment exist. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGU). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. As at December 31, 2023, the Company has one operating segment and one CGU.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance or purchase of shares are recognized as a deduction from equity.

Cost of products sold

Cost of products sold includes the cost of finished goods, royalties to license holders, inventory provisions, distribution costs and direct overhead expenses necessary to acquire the finished goods.

Research and development

The Company conducts research and development programs and incurs costs related to these activities, including employee compensation, materials, professional services and services provided by contract research organizations. Research and development costs, net of related tax credits and contractual reimbursements from development partners, and such costs are expensed in the periods in which they are incurred.

Income taxes

Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-

Notes to consolidated financial statements

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

discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position date and are expected to apply when the deferred tax asset or liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Share-based compensation

The fair value of options granted to employees and directors is estimated on the date of the grants using the Black-Scholes option pricing model. Stock options vest over four years (25% per year) for both employees and directors and expire after seven or ten years and can only be settled in common shares. Each tranche in an award is considered as a separate award with its own vesting period and grant date fair value. Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed annually, with any impact being recognized immediately. Stock option forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense is included within the respective functional departments in operating expenses in the consolidated statements of income and comprehensive income and in contributed surplus in the consolidated statements of financial position. The consideration received on the exercise of stock options is credited to share capital at the time of exercise.

Restricted share units ("RSUs") are notional common shares of the Company to be issued to employees and directors of the Company. RSUs vest three years from the date of grant (one third per year) or four years from the grant date (one quarter per year) for employees and vest over one year for board of directors and can only be settled in common shares. The Company amortizes the fair value of the RSUs over the service period of the individual RSU grant, which generally equals the vesting period. RSU forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To the extent RSUs and/or options are granted under a compensation plan in accordance with an objective formula and the service period commences prior to the grant date, the Company estimates the grant date fair value of an award for services received in advance of the grant date, the estimate is revised at subsequent reporting periods until the date of grant has been established. Once the grant date has been established the Company revises the earlier estimate so that the amounts recognized for services received in respect of the grant are ultimately based on the grant date fair value of the equity instruments awarded. The expense is recognized over the expected service period and the Company calculates the pre-grant date expense based on estimates of the expected grant date fair value of the instruments.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Termination benefits

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Earnings per share

Basic earnings per share ("EPS") is calculated using the treasury stock method, by dividing the net income for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share information is calculated assuming the deemed exercise of all in-the-money stock options, RSUs and other share-based instruments and that all deemed proceeds to the Company are used to repurchase the Company's stock at the average market price during the year. No adjustment to diluted earnings per share is made if the result of this calculation is antidilutive.

Leases

Right-of-use assets

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

Lease obligations

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

Accounting standards amendments issued

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2023. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 – Disclosure of accounting policies

In February 2021, the IASB issued amendments to IAS 1, clarifying the application of the concept of materiality to accounting policy disclosures. These amendments help entities provide useful accounting policy disclosures by:

- requiring entities to disclose their material accounting policies instead of their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and
- clarifying that not all accounting policies relating to material transactions, other events or conditions are themselves material.

The Company's previously disclosed significant accounting policies are considered by the Company to be material accounting policies. Further, none of the previously disclosed accounting policies are considered by the Company to be immaterial based on these amendments to IAS 1. Consequently, the application of these amendments have not had any impact on the accounting policies disclosed by the Company for the year ended December 31, 2023.

Amendments to IAS 8 – Definition of accounting estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The Company has not had any changes in accounting policies or changes in accounting estimates during the year ended December 31, 2023.

New standards issued, but not yet effective:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

Amendments to IAS 1 – Non-current liabilities with covenants

In October 2022, the IASB issued amendments to IAS 1, which clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier application is permitted as long as this fact is disclosed.

Amendments to IFRS 16 – Leases on sale and leaseback

In September 2022, the IASB issued amendments to IFRS 16, which include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted as long as this fact is disclosed.

Amendments to IAS 7 and IFRS 7 - Supplier finance arrangements

In May 2023, the IASB issued amendments to IAS 7 and IFRS 7, which require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments are effective for annual reporting periods beginning on or after January 1, 2024.

Amendments to IAS 21 - Lack of Exchangeability

In August 2023, the IASB issued amendments to IAS 21, which impact entities that have transactions or operations in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency, and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2025. Earlier application is permitted as long as this fact is disclosed.

Notes to consolidated financial statements

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

4. Critical accounting estimates and judgments

The Company makes estimates and judgments concerning the future that will, by definition, seldom equal actual results. 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.

The following are the critical estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

i) Returns

The provision for returns is a complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue. The Company estimates provisions for returns based upon historical experience, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

ii) Deferred income taxes

Management uses estimates when determining deferred income tax assets. These estimates are used to determine the recoverability of non-capital tax loss carry forward amounts, research and development expenditures and investment tax credits. Significant judgment is required to determine the probable future taxable income in order to recognize the deferred tax asset. Estimates of future taxable income rely on significant assumptions including forecasted revenue growth, and expected operating and general expenditures. Changes in market conditions, changes in tax legislation, patent challenges and other factors, including the approval or launch of generic versions of any of the Company's products, could adversely affect the ongoing value of deferred tax assets. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

Management assesses the relevance and effect of changes in facts and circumstances during the year in the context of applicable tax laws on its uncertain tax positions and adjusts its provision accordingly. Assessing whether it is probable that the taxation authority will accept an uncertain tax treatment and the estimate of the provision require significant management judgment related to the interpretation and application of complex tax laws and regulations.

iii) Share-based compensation

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

iv) Impairment of non-financial assets

The Company reviews indefinite-lived and not ready for use non-financial assets for impairment either annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired.

The Company reviews amortized non-financial assets for impairment when impairment indicators exist. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

v) Impairment of goodwill

Goodwill is tested for impairment annually at year end, or more frequently if indicators of impairment exist. The impairment test on a CGU is carried out by comparing the carrying amount of the CGU to its recoverable amount. The recoverable amount of a CGU is the higher of its fair value, less costs of disposal and its value in use. The recoverable amount has been determined by management using the fair value less costs of disposal approach. For the impairment test during the year ended December 31, 2023, the Company determined the recoverable amount to be the fair value less costs to dispose. In calculating the recoverable amount, the Company took the market approach by considering the market capitalization and earnings multiple approach (2022 – market approach).

vi) Functional currency

Management uses judgment when determining its functional currency. This determination includes an assessment of the indicators as prescribed in IAS 21, *The Effects of Changes on Foreign Exchange Rates* (“IAS 21”). However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies, management uses judgment in the ultimate determination of the functional currency.

5. Risk management and uncertainties

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, market 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.

i) 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 deterioration of principal, enhance the Company's ability to meet its liquidity needs and provide high returns within those parameters. Cash is on deposit with Canadian chartered banks, and cash equivalents consist of short-term investments held with Canadian chartered banks. Management monitors the collectability of accounts receivable and other receivables and estimates an allowance for doubtful accounts.

As at December 31, 2023, the provision for expected lifetime credit losses for receivables both aged and past due was not significant (2022 – nil) and the accounts that were past due were negligible (2022 – nil).

The Company has concentration risk, as approximately 88% (2022 – 88%) of total revenue came from four (2022 – four) customers and approximately 83% (2022 – 89%) of total accounts receivable is due from three (2022 – four) customers.

ii) 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.

Notes to consolidated financial statements

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

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

The Company anticipates that its current cash, together with the cash flow that is generated from operations will be sufficient to execute its current business plan for 2024.

The following table outlines the Company's undiscounted contractual obligations as at December 31, 2023.

Description	Less than one year	Years two and three	Beyond three years	Total
	$	$	$	$
Accounts payable and accrued liabilities	4,639	-	-	4,639
Lease obligations	117	244	53	414
Total	4,756	244	53	5,053

The current portion of lease obligations are recorded at the net present value of $94 (2022 – $101) in lease obligations. The non-current portion of the lease obligation of $259 (2022 – $327) is recorded in long-term lease obligations.

iii) Currency 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 denominated in Canadian dollars (“CDN$”). A change of 10 basis points in the U.S./CDN exchange rate on December 31, 2023 balances would have had a $7 impact on income and comprehensive income. The following are the financial assets and financial liabilities denominated in Canadian dollars as at December 31, 2023:

	CDN$
Cash and cash equivalents	10,987
Accounts receivable	3,595
Accounts payable and accrued liabilities	(2,560)
Lease obligations	(466)
Net financial assets	11,556

iv) 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.

v) Capital management risk

The Company’s managed capital is comprised of cash and cash equivalents 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 meet financial obligations as they become due. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time. The Company relies on cash on hand, cash flows from operations and debt financing to finance growth initiatives.

Notes to consolidated financial statements

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

6. Inventory

	2023	2022
	$	$
Finished goods	**3,194**	2,220
Obsolescence provision	**(212)**	(68)
	2,982	2,152

Inventory amounts recorded in cost of products sold during the year is $2,568 (2022 – $2,524).

7. Property and equipment

	Computer equipment	Furniture and fixtures	Leasehold improvements	Office lease (Right-of-use)	Total
Cost	$	$	$	$	$
Balance, January 1, 2022	125	—	—	516	641
Additions	1	11	74	—	86
Disposals	(7)	—	—	(4)	(11)
Balance, December 31, 2022	119	11	74	512	716
Additions	1	2	18	19	40
Balance, December 31, 2023	**120**	**13**	**92**	**531**	**756**
Accumulated depreciation					
Balance, January 1, 2022	123	—	—	17	140
Depreciation	2	1	5	88	96
Disposals	(8)	—	—	7	(1)
Balance, December 31, 2022	117	1	5	112	235
Depreciation	1	3	20	89	113
Foreign exchange	1	(1)	—	6	6
Balance, December 31, 2023	**119**	**3**	**25**	**207**	**354**
Net book value					
As at December 31, 2023	**1**	**10**	**67**	**324**	**402**
As at December 31, 2022	2	10	69	400	481

Depreciation expense of $113 (2022 – $96) is recorded in depreciation and amortization expense in the consolidated statements of income and comprehensive income.

Notes to consolidated financial statements

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

8. Intangible assets

Intangible assets consist of licensing and intellectual product rights of the Company's portfolio:

Cost	$
Balance, January 1, 2022	6,079
Additions	—
Balance, December 31, 2022	6,079
Additions	123
Balance, December 31, 2023	**6,202**

Accumulated amortization	
Balance, January 1, 2022	2,432
Amortization	893
Balance, December 31, 2022	3,325
Amortization	1,114
Balance, December 31, 2023	**4,439**

Net book value	
As at December 31, 2023	**1,763**
As at December 31, 2022	2,754

Amortization expense of $1,114 (2022 – $893) is recorded in depreciation and amortization expense in the consolidated statements of income and comprehensive income. The average remaining amortization period of the intangible assets is 3.29 years.

As at December 31, 2023, the Company had intangible assets with a cost of $500 (2022 – $500), which are not yet available for use. Accordingly, amortization has not commenced on these intangible assets.

9. Contract liabilities

Contract liabilities relate to estimates made for product returns for the Canadian operations, due to expiration or other return rights provided to customers under the Company's return policy, taking into account historical rates of return. The adequacy of the contract liabilities is evaluated based on product sales activity and estimates of expiring products in the distribution chain.

The following is the continuity of the contract liabilities for the year ended December 31, 2023:

	$
Balance, January 1, 2022	450
Additions	88
Payments	(252)
Foreign exchange	(29)
Balance, December 31, 2022	257
Additions	599
Payments	(343)
Foreign exchange	6
Balance, December 31, 2023	**519**

Notes to consolidated financial statements

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

10. Lease obligations

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 December 31, 2023 is $414.

The carrying amounts of the Company's lease obligations and movements during the years ended December 31, 2023 and 2022 were as follows:

	$
Balance, January 1, 2022	516
Interest expense	6
Payments	(56)
Foreign exchange	(38)
Balance, December 31, 2022	428
Remeasurement of lease obligations	19
Interest expense	9
Payments	(111)
Foreign exchange	8
Balance, December 31, 2023	**353**
Current portion	**94**
Long-term portion	**259**

During the year ended December 31, 2023, the carrying amount of lease obligations was remeasured due to a change in the attributes of the underlying in-substance fixed lease payments that are included in the calculation of the lease obligations. Accordingly, the Company recorded an adjustment to the lease obligations and the corresponding right-of-use assets in the amount of $19 (2022 – nil), which has been reflected as remeasurement of lease obligations in the table above, and an addition to the cost of the office lease right-of-use asset within Note 7 – Property and equipment.

11. 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 December 31, 2023, there were no amounts (2022 – nil) drawn on the Credit Facility.

12. 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 and Performance Share Units Plan (the "RSU and PSU Plan").

On June 23, 2021, shareholders of Cipher approved resolutions which provide that the maximum number of common shares issuable in aggregate pursuant to outstanding awards or grants under the SOP and the RSU and PSU Plan at any time shall be 10% of the number of common shares then issued and outstanding.

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 common 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 year ended December 31, 2023, 14,053 common shares were issued under the ESPP (2022 – 25,982) at a weighted average trading price of CDN$3.95 (2022 – CDN$2.38). Included in share-based compensation expense is $7 (2022 – $7), which is the discount on the common shares issued during the year.

Normal course issuer bid

On November 15, 2023, 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 November 19, 2024, up to an aggregate of 1,337,195 of its issued and outstanding common shares, being 10% of its public float of 13,371,956 common shares as of November 10, 2023.

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 year ended December 31, 2023, the Company purchased for cancellation 257,221 common shares (2022 – 1,092,758) at an average price of CDN$4.56 per common share (2022 – CDN$2.34) under the Normal Course Issuer Bid. The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by $718 (2022 – $1,317), which was recorded in retained earnings.

Substantial issuer bid

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 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. The total cash consideration paid, including costs incurred in connection with the Offer, exceeded the weighted average carrying value of the shares repurchased by $3,902, which was recorded in retained earnings.

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

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2022 to December 31, 2023:

	Number of options (000s)	Weighted average exercise price (CDN$)
Balance, January 1, 2022	554	2.36
Granted during the year	386	2.22
Exercised during the year	(91)	1.21
Forfeited/expired during the year	(76)	2.93
Balance, December 31, 2022	773	2.37
Granted during the year	**392**	**3.86**
Exercised during the year	**(206)**	**2.71**
Forfeited/expired during the year	**(116)**	**2.60**
Balance, December 31, 2023	**843**	**3.08**

As at December 31, 2023, 191,287 options were fully vested and exercisable (2022 – 252,554).

During the year ended December 31, 2023, the Company granted 392,490 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 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	76.2%
April 24, 2023	65,000	3.37	2.12	3.15%	4.9 years	76.2%
June 21, 2023	60,000	3.69	2.25	3.56%	4.9 years	72.4%
December 1, 2023	40,000	6.31	3.13	4.30%	4.9 years	52.1%

During the year ended December 31, 2022, the Company granted 386,518 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 weighted average Black-Scholes assumptions are as follows:

Notes to consolidated financial statements

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

Grant date	Number granted	Exercise price (CDN$)	Black-Scholes value (CDN$)	Risk-free interest rate	Expected life	Expected volatility
March 17, 2022	236,518	2.17	1.28	1.92%	4.9 years	68.9%
August 15, 2022	150,000	2.31	1.37	2.90%	4.9 years	75.3%

The total expense for stock options for the year ended December 31, 2023 was $529 (2022 – $137) and was recorded to selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

The following information relates to stock options that were outstanding as at December 31, 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	3.22 years	0.88
2.17 – 5.24	695	5.64 years	3.08
6.19 – 6.31	60	5.49 years	6.27
	843	**5.37 years**	**3.08**

During the year ended December 31, 2023, 206,470 stock options were exercised (2022 – 91,318) for gross proceeds of $407 (2022 – $99).

The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options. The fair value of grants with these market conditions are estimated based on the expected payout as of the grant date, or at the start of the service period to the extent the service period commences prior to the grant date.

During the year ended December 31, 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 year ended December 31, 2023 (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 $13 being recorded in retained earnings for the year ended December 31, 2023 (2022 – $nil).

Restricted Share Unit and Performance Share Unit Plan

On May 13, 2015, the Company adopted the RSU and PSU Plan. RSUs and Performance Share Units ("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 December 31, 2023 (2022 – nil).

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

A summary of the RSUs granted and outstanding as at December 31, 2023 is as follows:

	Number of RSUs (000s)
Balance, January 1, 2022	202
Granted during the year	301
Vested and settled during the year	(102)
Forfeited/cancelled during the year	(2)
Balance, December 31, 2022	399
Granted during the year	**281**
Vested and settled during the year	**(261)**
Forfeited/cancelled during the year	**(68)**
Balance, December 31, 2023	**351**

The total expense for RSUs for the year ended December 31, 2023 was $654 (2022 – $257) and was recorded to selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

13. Licensing revenue

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

	2023 $	2022 $
Royalty revenue	**4,884**	5,641
Licensing product sales	**3,599**	2,504
Total licensing revenue	**8,483**	8,145

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14. Expenses by nature

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

	2023	2022
	$	$
Salaries and benefits compensation	**1,405**	1,099
Share-based compensation	**1,190**	403
Professional fees	**1,911**	1,791
Data management and market research	**301**	146
Regulatory and pharmacovigilance	**451**	495
Insurance	**180**	220
Other administrative costs	**256**	392
	5,694	4,546

15. 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:

	2023	2022
	$	$
Salaries, bonuses and benefits	**565**	492
Share-based compensation	**1,085**	699
Directors' fees	**277**	259
Termination benefits	**231**	—
	2,158	1,450

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.

Termination benefits include severance amounts paid or payable to former executives of the Company.

16. Income taxes

The components of the income tax recovery are as follows:

	2023	2022
	$	$
Current income tax recovery	**(4,965)**	(847)
Deferred income tax recovery	**(2,737)**	(14,310)
	(7,702)	(15,157)

Notes to consolidated financial statements

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

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

	2023	2022
	$	$
Income before income taxes	**12,681**	11,479
Tax provision at the statutory income tax rate of 26.5%	**3,360**	3,049
Permanent differences	**415**	45
Unrecognized tax benefit	**(4,965)**	(847)
Effect of foreign exchange	**(348)**	399
Change in enacted income tax rates and other items	**1,262**	(114)
Interest and penalties	**—**	—
Change in deferred tax assets not previously recognized and other	**(7,426)**	(17,689)
	(7,702)	**(15,157)**

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 projected taxable income. During the year ended December 31, 2023, the Company recognized previously unrecognized losses of $2,782 (2022 – $12,355) that are expected to be used to reduce taxable income for the year and $75,046 (2022 – $62,922) that are estimated to be utilized based on the Company's five-year forecast. As a result, during the year ended December 31, 2023, the Company had a decrease in deferred tax assets not recognized of $7,426 (2022 – $17,689).

During the year ended December 31, 2023, as a result of a change in facts and circumstances related to uncertain tax positions, the Company reversed a provision for $4,922 (2022 – $1,321). The change in provision of $4,965 (2022 – $1,229) is recorded as a recovery of the current income tax expense and $43 (2022 – $92 foreign exchange gain) is recorded as a foreign exchange loss in the consolidated statements of income and comprehensive income. These amounts have been recorded to income taxes payable on the consolidated statements of financial position.

Deferred income tax assets of the Company are comprised of the following:

	2023	2022
	$	$
Non-capital losses	**17,708**	14,708
Temporary differences	**2,179**	1,966
	19,887	16,674

The movement in the deferred income tax asset is as follows:

	2023	2022
	$	$
Balance, January 1	**16,674**	2,470
Tax provision	**(4,689)**	(3,379)
Foreign exchange	**476**	(106)
Recognition of previously unrecognized tax assets	**7,426**	17,689
Balance, December 31	**19,887**	16,674

Notes to consolidated financial statements

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

The significant components of unrecognized deferred tax assets are summarized as follows:

	2023	2022
	$	$
Capital losses	**454**	444
Non-capital losses	**24,778**	34,844
Tax credits	**12,160**	13,029
SR&ED tax pools	**14,311**	13,968
Temporary differences	**(3,222)**	(3,453)
	48,481	58,832

The Company has non-capital losses of $160,324 (2022 – $186,989), investment tax credits of $12,160 (2022 – $13,029) and SR&ED expenditures of $54,005 (2022 – $52,708). The non-capital losses expire in varying amounts from 2028 to 2040. The investment tax credits expire in varying amounts from 2024 to 2042.

17. 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.

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.

Notes to consolidated financial statements

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

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 December 31, 2023 is $414 (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", as previously defined herein), 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 year ended December 31, 2023, the Company paid royalties of $6,850 (2022 – $7,022) to Galephar. As at December 31, 2023, the Company had royalties payable of $1,398 (2022 – $1,580) to Galephar. Royalties 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. Royalties paid and payable to Galephar with respect to the Company's licensing agreements are included in and have the affect of reducing net revenue, specifically licensing revenue, in the consolidated statements of income and comprehensive income.

18. Segmented information

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

During the year ended December 31, 2023, the Company generated approximately 60% (2022 – 60%), of its net revenue within Canada, with the remainder primarily attributable to the U.S. There are no significant assets located outside of Canada.