

Cipher Pharmaceuticals Inc.

Interim Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

Unaudited

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Financial Position

As at September 30, 2018, December 31, 2017 and January 1, 2017
(in thousands of United States dollars - unaudited)

		September 30, 2018	December 31, 2017	January 1, 2017
	Note	\$	\$	\$
ASSETS				
Current assets				
Cash		10,034	28,241	34,486
Accounts receivable		7,948	21,906	14,644
Inventory	4	1,066	488	1,272
Prepaid expenses and other assets		1,189	1,519	1,767
Other receivable	3	1,700	1,700	-
		21,937	53,854	52,169
Property and equipment, net		324	266	790
Intangible assets, net	4, 6, 7	13,805	5,400	17,582
Goodwill	4	15,706	-	-
Deferred tax assets	12	2,850	3,488	6,687
Total assets		54,622	63,008	77,228
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	3, 4	8,503	18,705	16,003
Contract liability	3	758	1,651	4,769
Current portion of credit facility	5	8,000	6,664	-
		17,261	27,020	20,772
Senior secured notes	5	-	-	36,377
Credit facility	5	11,461	11,456	-
Derivative financial instrument	5	129	549	583
Other long term liabilities	3	148	680	996
Total liabilities		28,999	39,705	58,728
SHAREHOLDERS' EQUITY				
Share capital		18,281	18,020	16,192
Contributed surplus		5,146	4,715	6,024
Accumulated other comprehensive loss		(9,514)	(9,514)	(9,514)
Retained earnings		11,710	10,082	5,798
Total shareholders' equity		25,623	23,303	18,500
Total liabilities and shareholders' equity		54,622	63,008	77,228
Commitments and Contingencies	14			

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

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Income and Comprehensive Income

Three and nine months ended September 30, 2018 and 2017
(in thousands of United States dollars, except per share data - unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
		\$	\$	\$	\$
			Restated Note 2		Restated Note 2
Revenues					
Licensing revenue	9	3,256	8,805	11,257	24,237
Product revenue		1,571	1,239	5,100	3,779
Net revenues		4,827	10,044	16,357	28,016
Operating expenses					
Cost of products sold		564	440	1,623	1,347
Research and development		224	117	414	286
Selling, general and administrative	10	2,970	3,281	9,778	9,192
Impairment of intangible assets	7	-	561	1,832	561
Total operating expenses		3,758	4,399	13,647	11,386
Other expenses (income)					
Interest expense	5	240	631	637	2,707
Change in fair value of derivative financial instrument	5	22	(82)	(420)	(88)
Interest income		(38)	-	(152)	(5)
Loss on debt extinguishment	5	-	-	-	5,223
Foreign exchange gain		(68)	(34)	(18)	(93)
Total other expenses		156	515	47	7,744
Income before income taxes from continuing operations		913	5,130	2,663	8,886
Current income tax expense	12	79	-	323	-
Deferred income tax expense	12	96	1,241	638	2,185
Total income tax expense		175	1,241	961	2,185
Income and comprehensive income from continuing operations		738	3,889	1,702	6,701
Loss and comprehensive loss from discontinued operations	3	(37)	(1,184)	(74)	(6,214)
Income and comprehensive income for the period		701	2,705	1,628	487
Income from continuing operations per common share					
	13				
Basic		0.03	0.15	0.06	0.25
Diluted		0.03	0.14	0.06	0.25
Loss from discontinued operations per common share					
	13				
Basic		(0.00)	(0.05)	(0.00)	(0.23)
Diluted		(0.00)	(0.04)	(0.00)	(0.23)
Income and comprehensive income per common share					
	13				
Basic		0.03	0.10	0.06	0.02
Diluted		0.03	0.10	0.06	0.02

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Cipher Pharmaceuticals Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity

Nine months ended September 30, 2018 and 2017
(in thousands of United States dollars - unaudited)

	Note	Share Capital	Contributed Surplus	Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
		000's	\$	\$	\$	\$
Balance, January 1, 2018		26,721	18,020	4,715	10,082	23,303
Income for the period		-	-	-	1,628	1,628
Exercise of stock options	8	1	2	(1)	-	1
Shares issued under the share purchase plan	8	35	92	-	-	92
Shares issued under the Restricted and Performance Share Unit plan		38	167	(167)	-	-
Share-based compensation expense	8	-	-	599	-	599
Balance, September 30, 2018		26,795	18,281	5,146	11,710	25,623
Balance, January 1, 2017		26,313	16,192	6,024	5,798	18,500
Income for the period	2	-	-	-	487	487
Exercise of stock options	8	278	1,264	(724)	-	540
Shares issued under the share purchase plan	8	25	96	-	-	96
Shares issued under the Restricted and Performance Share Unit plan		73	377	(377)	-	-
Share-based compensation expense	8	-	-	(192)	-	(192)
Balance, September 30, 2017		26,689	17,929	4,731	6,285	19,431

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Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Cash Flows

Nine months period ended September 30, 2018 and 2017
(in thousands of United States dollars - unaudited)

	Note	2018	2017
		\$	\$
Cash provided by (used in)			
Operating activities			
Income for the period from continuing operations		1,702	6,701
Items not affecting cash:			
Depreciation of property and equipment		101	97
Amortization of intangible assets		471	631
Impairment of intangible assets	7	1,832	561
Share-based compensation		613	321
Foreign exchange loss on cash		22	70
Change in fair value of derivative		(420)	(88)
Loss on debt extinguishment		-	5,223
Interest on long term debt		637	2,707
Deferred income taxes		638	2,188
Changes in non-cash operating items:			
Accounts receivable		13,958	(5,198)
Inventory		(570)	75
Prepaid expenses and other assets		161	(35)
Accounts payable and accrued liabilities		(9,702)	(446)
Net cash provided by operating activities		9,443	12,807
Investing activities			
Purchase of property and equipment		(58)	(39)
Milestone payments related to intangible assets		-	(148)
Acquisition of intangible assets	6	(6,000)	-
Acquisition of Cardiome Pharma Corp	4	(19,343)	-
Net cash received from disposal of assets	3	-	7,619
Net cash provided by (used in) investing activities		(25,401)	7,432
Financing activities			
Interest payments		(522)	(2,083)
Repayment of credit facility		(3,666)	(20,000)
Proceeds from credit facility	5	5,000	-
Financing costs	5	(108)	(2,500)
Payment of finance lease liability		(50)	(35)
Proceeds from shares issued under the share purchase plan		78	81
Proceeds from exercise of stock options		1	540
Net cash provided by (used in) financing activities		733	(23,997)
Cash used in discontinued operations	3	(2,960)	(6,316)
Decrease in cash		(18,185)	(10,074)
Impact of foreign exchange on cash		(22)	(70)
Cash, beginning of period		28,241	34,486
Cash, end of period		10,034	24,342

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

Cipher Pharmaceuticals Inc.

Notes to Interim Condensed Consolidated Financial Statements

September 30, 2018

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1. NATURE OF OPERATIONS

Cipher Pharmaceuticals Inc. ("Cipher") and its subsidiaries (together the "Company") is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late stage products. The Company acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada and the United States ("U.S.") or indirectly through partners in the U.S., Canada and Latin America. The Company is building its business through product licensing and acquisitions. Cipher was incorporated under the Business Corporations Act of Ontario on January 9, 2004 and is located at 2345 Argenta Road, Mississauga, Ontario.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. The disclosures contained in these interim condensed consolidated financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements. The interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and are available on SEDAR at www.sedar.com. The interim condensed consolidated financial statements are based on accounting policies as described in the 2017 annual consolidated financial statements except for that effective January 1, 2018, the Company implemented IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*.

The Board of Directors approved these interim condensed consolidated financial statements on November 6, 2018.

Reclassification of comparative period presentation

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

Discontinued operations

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

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

Business combinations

The acquisition in May 2018 has been accounted for as a business combination using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in the interim condensed consolidated statements of income and comprehensive income as incurred. At the acquisition date, the identifiable assets acquired, and the liabilities assumed are initially recognized at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Changes in fair value that are not considered measurement adjustments are recognized in the interim condensed consolidated statements of income and comprehensive income. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Other than measurement

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period adjustments, contingent consideration that is classified as a financial asset or a financial liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in the interim condensed consolidated statements of income and comprehensive income.

The Company assesses whether an acquisition should be accounted for as an asset acquisition or business combination under IFRS 3, *Business Combinations* ("IFRS 3"). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs, processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company's acquisition of Cardiome Pharma Corp. ("Cardiome") was accounted for as a business combination.

Goodwill

Goodwill arises on business combinations and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is 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 Company at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the groups of CGUs which contains goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Fair value of financial instruments

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

As at September 30, 2018, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, other long term liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statements of income and comprehensive income and is classified as Level 2 (as defined under IFRS). Cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and the credit facility are measured at amortized cost and their fair values approximate carrying values.

Changes in accounting policies

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

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

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

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

The impact to the comparative interim consolidated statement of income and comprehensive income for the three months ended September 30 is as follows:

	Sept 30, 2017 as presented	Adjustment	Sept 30, 2017 restated
	\$	\$	\$
Licensing revenue	8,851	(46)	8,805
Net revenue	10,090	(46)	10,044
Deferred income tax expense	1,253	(12)	1,241
Income and comprehensive income from continuing operations	3,923	(34)	3,889
Income and comprehensive income for the period	2,739	(34)	2,705

The impact to the comparative interim consolidated statement of income and comprehensive income for the nine months ended September 30 is as follows:

	Sept 30, 2017 as presented	Adjustment	Sept 30, 2017 restated
	\$	\$	\$
Licensing revenue	24,369	(132)	24,237
Net revenue	28,148	(132)	28,016
Deferred income tax expense	2,220	(35)	2,185
Income and comprehensive income from continuing operations	6,798	(97)	6,701
Income and comprehensive income for the period	584	(97)	487

Licensing revenue

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

Deferred revenue – Deferred revenue represented amounts paid by the Company's licensing partners upon achievement of certain milestones and were amortized over a relevant period. These were determined to be point in time recognition to coincide with the timing of when control was transferred. Therefore, licensing revenue for the three and nine months ended September 30, 2017 was reduced by \$46 and \$132, respectively. Additionally, the current and long term portion of the deferred revenue on the consolidated statements

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of financial position were adjusted to opening retained earnings to reflect recognition at the point in time when control was transferred. Accordingly, the Company has restated the consolidated statements of financial position.

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

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

Product revenue

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

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

Contract liability – The Company estimates a returns provision upon the sale of its commercial products, which is recorded in contract liability. Commercial products may be returned upon expiry or in unsalable condition when received by its customers.

Accounting standards issued but not yet adopted

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

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

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

3. DISCONTINUED OPERATIONS

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

The terms of the U.S. APA, include a hold back of \$1,700, which will be settled 18 months from the date of closing and an additional regulatory milestone of up to \$750 if certain predefined conditions are achieved. The hold back of \$1,700 is classified as other receivable in the consolidated statements of financial position. In the fourth quarter of 2017, the regulatory milestone was achieved and the

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Company received an additional \$740, net of administrative costs. On November 1, 2018, the Company received the hold back amount of \$1,700 in full. The total cash consideration received is \$11,039.

The following table summarizes the balances retained by the Company as at September 30, 2018, which are included in the consolidated statements of financial position:

	\$
Accounts payable and accrued liabilities	1,096
Contract liability	758
Other long term liabilities	45
Total	1,899

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

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

	Three months ended Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$	\$	\$
Net revenues	(27)	(584)	(5)	2,347
Operating expenses	10	568	69	8,894
Loss before loss (gain) on disposal	37	1,152	74	6,547
Loss (gain) on disposal	-	32	-	(333)
Loss before income taxes	37	1,184	74	6,214
Income taxes	-	-	-	-
Loss and comprehensive loss from discontinued operations	37	1,184	74	6,214

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

	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$
Net cash flows attributable to:		
Operating activities	(2,960)	(6,308)
Investing activities	-	(8)
Cash used in discontinued operations	(2,960)	(6,316)

4. ACQUISITION OF CARDIOME PHARMA CORP

On May 15, 2018, the Company acquired the Canadian business portfolio of Cardiome by acquiring all of the issued and outstanding common shares of Cardiome (the "Acquisition") pursuant to the terms and conditions of a definitive arrangement agreement (the "Arrangement Agreement") entered into among Cipher, Cardiome and Correvio Pharma Corp. ("Correvio") on March 19, 2018. Upon completion of the acquisition, Cardiome became a wholly owned subsidiary of the Company. The Canadian business portfolio acquired by the Company includes commercial and pipeline hospital products administered in the acute care setting. The Company acquired Cardiome as part of its ongoing efforts to diversify its product base.

The total purchase price of CDN\$25,500 (\$19,922) of which CDN\$24,500 (\$19,141) was paid in cash on closing and a holdback of CDN\$1,000 (\$781) is payable in four equal installments quarterly from the date of the agreement. As at September 30, 2018, the holdback balance is CDN\$750 (\$579) and is recognized in accounts payable and accrued liabilities on the consolidated statements of

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financial position. Total transaction costs incurred were \$589, which are recorded in SG&A in the consolidated statements of income and comprehensive income.

The following table presents the preliminary fair value of the assets acquired and liabilities assumed at the date of the acquisition.

	\$
Purchase price	19,922
Inventory	8
Intangible assets	4,208
Goodwill	15,706

Goodwill represents the Cardiome's tax loss carry forwards, investment tax credits and scientific research and experimental development credits that Cipher intends to use as a result of carrying on the former Cardiome business. The goodwill recognized is expected to be deductible for income tax purposes. The final purchase price allocation will be determined when Cipher has completed the detailed valuations and necessary calculations and could differ materially from the preliminary purchase price. The final purchase price allocation may include (1) changes in fair value of intangible assets comprised of product and licensing rights (2) recognition of deferred tax assets or deferred tax liabilities and (3) the resultant changes to the amount recognized as goodwill.

Intangible assets represent product and licensing rights and licensing rights to four products, where the Company has exclusivity in Canada. An assigned licensing right includes a milestone payment of \$1,000 upon launching the product and revenue milestones upon achieving a specified level of sales in a calendar year.

Had Cardiome been consolidated from January 1, 2018, the consolidated statements of income and comprehensive income would show pro forma revenue of \$16,386 and income and comprehensive income of \$1,477.

5. SENIOR SECURED NOTES AND CREDIT FACILITY

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

On November 3, 2017, the Company entered into a credit agreement with a Canadian lender to extinguish its existing Notes and replace with a credit facility. In connection with the credit agreement, the Company used the proceeds of \$20,000 to fully extinguish the remaining balance of the Notes. Pursuant to the Original SPA, the Company paid a prepayment penalty of \$1,000 and a borrowing fee of \$1,000. The credit facility has a three-year term, carrying an interest rate of LIBOR plus an applicable margin ranging from 1.5% - 2.5% based on the total debt to EBITDA ratio, as defined in the credit agreement. Principal and interest payments are payable quarterly in arrears. The credit facility also carries an accordion feature that allows for an additional \$10,000 of capacity, subject to customary terms and conditions. The Company is subject to certain financial and non-financial covenants, including total debt to EBITDA ratio, minimum fixed charge coverage ratio and minimum shareholders' equity as defined per the credit agreement. The credit facility is secured by the assets of the Company. The interest rate applicable in the third quarter was approximately 3.64%. The effective interest rate was 3.60%.

On May 15, 2018, concurrent with the acquisition of Cardiome, the Company drew \$5,000 from its existing credit facility. Net of transaction costs of \$108, the amount recorded to the consolidated statement of financial position was \$4,892. As a result, the scheduled quarterly payments increased from \$1,666 to \$2,000, however both the principal and interest payments due on June 30, 2018 were

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waived and are payable upon maturity. There was no corresponding change in the interest rate terms or term of the credit facility. Subsequent to the drawdown, the accordion was reset to \$10,000.

The following is the continuity of the credit facility from January 1, 2018 to September 30, 2018:

	\$
Balance, January 1, 2018	18,120
Interest expense	146
Interest paid	(146)
Imputed interest accretion	36
Repayment	(1,666)
Balance, March 31, 2018	16,490
Proceeds, net	4,892
Interest expense	181
Interest paid	(114)
Imputed interest accretion	34
Balance, June 30, 2018	21,483
Interest expense	197
Interest paid	(262)
Imputed interest accretion	43
Repayment	(2,000)
Balance, September 30, 2018	19,461
Current portion	8,000
Long term portion	11,461

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

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

Derivative financial instrument

Under the terms of the Original SPA, the Company issued 600,000 common share purchase warrants with an option for a cashless exercise in which the settlement price caused the conversion ratio to be variable. Accordingly, the warrants are classified as a financial liability. Gains and losses on re-measurement are presented separately in the consolidated statements of income and comprehensive income. The exercise price of the warrants is \$9.22 (equal to the five day volume-weighted average price on the Toronto Stock Exchange prior to closing, converted to U.S. dollars) and expire seven years from the date of issuance. A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants as at September 30, 2018 and December 31, 2017 were \$129 and \$549, respectively.

The variables used to compute the fair value as at September 30, 2018 and December 31, 2017 are as follows:

	Sept 30, 2018	Dec 31, 2017
Share price	\$2.52	\$3.91
Expected life	3.5 years	4.2 years
Volatility	52.1%	56.4%

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6. INTANGIBLE ASSETS

On February 27, 2018, the Company acquired the exclusive Canadian rights to market, distribute and sell Trulance[®], a U.S. Food and Drug Administration (“FDA”) approved product. In connection with the acquisition, the Company paid an upfront payment of \$5,000 upon execution of the agreement. The transaction includes a regulatory milestone payment of \$750 and royalties on net product sales in Canada.

On April 5, 2018, the Company acquired the exclusive Canadian rights to distribute and commercialize A-101. A-101 is an FDA approved topical product. Under the terms of the licensing agreement, the Company paid an upfront payment of \$1,000 and upon achievement of certain milestone events, will pay additional regulatory and commercial milestone payments of up to \$2,750, as well as royalties from net product sales in Canada.

On September 18, 2018, the Company acquired the exclusive Canadian rights to distribute and commercialize MOB-015. Under the terms of the licensing agreement, the Company made an upfront payment of \$500 subsequent to September 30, 2018 and will pay additional development, regulatory and sales milestones of up to \$14,050 upon achievement. As at September 30, 2018, the upfront payment of \$500 is recorded in accounts payable and accrued liabilities.

Cost	Licensing and product rights
	\$
Balance, January 1, 2017	55,850
Additions	148
Impairment (note 7)	(698)
Disposal of U.S. segment	(41,919)
Balance, January 1, 2018	13,381
Additions	10,708
Impairment (note 7)	(2,792)
Balance, September 30, 2018	21,297
Accumulated amortization and impairment	
Balance, January 1, 2017	38,268
Amortization	831
Impairment (note 7)	(137)
Disposal of U.S. segment	(30,981)
Balance, January 1, 2018	7,981
Amortization	471
Impairment (note 7)	(960)
Balance, September 30, 2018	7,492
Net book value	
As at January 1, 2018	5,400
As at September 30, 2018	13,805

7. IMPAIRMENT OF INTANGIBLE ASSETS

During the first quarter of 2018, the Company re-assessed its efforts to out license its Astion assets acquired in 2015 and decided not to continue to actively pursue partners for Dermadexin and Pruridexin products in this portfolio. Accordingly, the Company wrote off the net book value of these assets in the amount of \$1,832 in operating expenses in the consolidated statements of income and comprehensive income.

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

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8. SHARE CAPITAL

Authorized share capital

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

The Company has three stock-based compensation plans: the Stock Option Plan ("SOP"), the Employee and Director Share Purchase Plan ("ESPP") and the Restricted Share Units and Performance Share Units ("PR Plan"). Full descriptions of the three stock-based compensation plans are included in Note 13 "Share Capital" to the Company's annual consolidated financial statements for the year ended December 31, 2017.

Share purchase plan

The Company's ESPP allows employees and directors to share in the growth of the Company through share ownership. Through the ESPP, employees and directors may contribute amounts to purchase shares of the Company at a 15% discount from the prevailing trading price. Plan members must hold their shares for a period of at least six months before they can be sold. During the three months ended September 30, 2018, 13,916 shares were issued under the ESPP (three months ended September 30, 2017 – 7,340). Included in share-based compensation expense is \$5 (three months ended September 30, 2018, 34,678 shares were issued under the ESPP (nine months ended September 30, 2017 – 25,580). Included in share-based compensation expense is \$14 (nine months ended September 30, 2017 – \$15).

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2018 to September 30, 2018:

	Number of options (in 000's)	Weighted average exercise price (CDN\$)
Balance, January 1, 2018	603	5.80
Granted during the period	469	3.53
Exercised during the period	(1)	2.32
Forfeited/expired during the period	(90)	8.36
Balance, September 30, 2018	981	4.49

As at September 30, 2018, 190,846 options were fully vested and exercisable (September 30, 2017 – 406,415).

In Q1 2018, the Company granted 469,468 stock options under the SOP. The options vest over a four-year period from the grant date, at a rate of 25% per year and expire seven years from the day of grant. The expected volatility is based on the Company's historical volatility over a comparable period based on expected life. There is no expected dividend. The exercise price and Black Scholes assumptions are as follows:

Grant date	Number granted	Exercise price (CDN\$)	Black Scholes value (CDN\$)	Risk-free interest rate	Expected life	Expected volatility
March 22, 2018	469,468	\$3.53	\$1.55	1.94%	4.9 years	48.2%

The following information relates to stock options that were outstanding as at September 30, 2018:

Range of exercise prices (CDN\$)	Number of options (in 000's)	Weighted average remaining contractual life (years)	Weighted average exercise price (CDN\$)
1.05 - 4.60	484	6.4	3.47
4.61 - 6.20	462	6.2	5.25
6.21 - 13.88	35	7.0	8.31
	981	6.3	4.48

During the quarter no stock options were exercised (three months ended September 30, 2017 – 64,000 stock options in exchange for 64,000 common shares). During the nine months ended September 30, 2018, 375 stock options were exercised in exchange for 375 common shares (nine months ended September 30, 2017 – 365,627 stock options in exchange for 278,499 common shares). The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options,

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which is the difference between the market price and the exercise price of the options. The total cash consideration received by the Company for stock option exercises during the three months ended September 30, 2018 is nil (three months ended September 30, 2017 – \$103). The total cash consideration received by the Company for stock options exercised for the nine months ended September 30, 2018 was \$1 (nine months ended September 30, 2017 – \$540).

The total stock option expense for the three months ended September 30, 2018 is \$117 (three months ended September 30, 2017 – \$37). The total stock option expense for the nine months ended September 30, 2018 is \$345 (nine months ended September 30, 2017 – recovery of \$80).

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

On May 13, 2015, the Company adopted a RSU and PSU plan. RSUs and PSUs are notional share units exchangeable for common shares of the Company. RSUs are granted to all employees and directors of the Company and PSUs are granted to certain executives. RSUs granted to employees vest annually over three or four years and RSUs granted to directors vest over a one year period. PSUs vest based upon the achievement of financial performance goals for the Company for the three years ended December 31, 2018. If certain targets are achieved, up to four times the PSU's granted will be exchanged for an equal number of common shares.

A summary of the RSUs and PSUs granted and outstanding as at September 30, 2018 is as follows:

	RSU's Number of units	PSU's Number of units
	000's	000's
Balance, January 1, 2018	103	65
Granted during the period	151	-
Vested during the period	(33)	(4)
Forfeited/cancelled during the period	(3)	(3)
Balance, September 30, 2018	218	58

The total expense for RSUs and PSUs for the three months ended September 30, 2018 is \$88 (three months ended September 30, 2017 – \$42). The total expense for the nine months ended September 30, 2018 is \$254 (nine months ended September 30, 2017 – recovery of \$112).

9. REVENUE

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

	Three months ended Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$	\$	\$
Licensing revenue		Restated Note 2		Restated Note 2
Royalty revenue	3,092	8,092	9,675	21,883
Licensing product sales	164	713	1,582	2,354
Total licensing revenue	3,256	8,805	11,257	24,237

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10. EXPENSES BY NATURE

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

Employee salaries and benefits	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept 30, 2018	Sept 30, 2017	Sept 30, 2018	Sept 30, 2017
	\$	\$	\$	\$
Salaries, bonuses and benefits	1,026	1,136	3,028	2,814
Share-based compensation	210	84	613	321
Termination benefits	-	241	10	801
Total employee salaries and benefits	1,236	1,461	3,651	3,936

For the three and nine months ended September 30, 2018 and September 30, 2017, all employee salaries and benefits are recorded in selling, general and administrative expenses.

11. 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 Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$	\$	\$
Salaries, bonuses and benefits	271	374	803	709
Share-based compensation	119	159	310	260
Directors fees	65	57	191	187
Termination benefits	-	24	-	289
	445	614	1,304	1,445

12. INCOME TAXES

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

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

The components of the income tax expense are as follows:

	Three months ended Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$	\$	\$
Current income tax expense	79	-	323	-
Deferred income tax expense	96	1,241	638	2,185
Income tax expense	175	1,241	961	2,185

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

	Three months ended Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$	\$	\$
Income before income taxes from continuing operations	913	5,130	2,663	8,886
Tax provision at the statutory income tax rate of 26.5%	242	1,360	706	2,355
Permanent differences	37	134	127	521
Effect of currency translation adjustment	(104)	(253)	128	(691)
Income tax expense	175	1,241	961	2,185

The movement in the deferred income tax asset for the nine months ended September 30, 2018 and 2017 is as follows:

	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
	\$	\$
As at January 1	3,488	6,687
Change in deferred tax asset	(638)	(2,183)
As at September 30	2,850	4,504

13. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended September 30, 2018 was 26,786,820 (three months ended September 30, 2017 – 26,656,840). The weighted average number of shares outstanding for the nine months ended September 30, 2018 was 26,762,243 (nine months ended September 30, 2017 – 26,527,383).

Diluted earnings (loss) per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the three months ended June 30, 2018 was 27,020,251 (three months ended September 30, 2017 – 26,826,260). The diluted weighted average number of shares outstanding for the nine months ended September 30, 2018 was 26,851,185 (nine months ended September 30, 2017 – 26,896,636).

14. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company may be the subject of litigation or other potential claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against litigation. At September 30, 2018, no amounts were accrued (September 30, 2017 – nil).

Licensing Agreements with Galephar

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

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

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

During the three and nine months ended September 30, 2018, the Company paid Galephar \$1,164 (three months ended September 30, 2017 – \$1,383) and \$3,505 (nine months ended September 30, 2017 – \$3,765), respectively. As at September 30, 2018, the amount in accounts payable and accrued liabilities owed to Galephar were \$1,813 (December 31, 2017 – \$3,296). Amounts payable to Galephar are remitted quarterly, after the Company collects from its licensing partners. Accordingly, the Company's accounts receivable has a corresponding balance representing amounts owed by its licensing partners.

Premise Lease

On July 19, 2018, the Company entered into an office lease agreement for its corporate operations to replace its current leased facility expiring December 31, 2018. The new office located in Oakville, Ontario will become the Company's new registered address. The term of the lease is 10 years and 3 months, commencing on January 1, 2019. The total undiscounted commitment for the lease term is CDN\$4,328.

15. SEGMENTED INFORMATION

The Company's operations are categorized into one industry segment, being specialty pharmaceuticals. Prior to the disposal of the U.S. business, the Company managed its operations geographically in Canada and the United States, representing two segments. Following the disposal of the U.S. operations, the Company has one reportable segment.

The Company generated approximately 33% of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.