cipher™ PHARMACEUTICALS

2020

First Quarter Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2020

The following is a discussion and analysis of the operating results and financial position of Cipher Pharmaceuticals Inc. and its subsidiaries ["Cipher" or "the Company"] as at and for the three months ended March 31, 2020. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements of Cipher for the three months ended March 31, 2020 and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. Additional information about the Company, including the Audited Annual Financial Statements and Annual Information Form for the year ended December 31, 2019, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ["MD&A"] are as at May 7, 2020. All dollar figures are stated in U.S. dollars unless otherwise indicated.

Caution Regarding Forward-Looking Statements

This document includes forward-looking statements within the meaning of applicable securities laws. These forward-looking statements include, among others, statements with respect to our objectives and goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions and statements relating to the Special Committee's review of the strategic direction of the Company and its strategic priorities including the anticipated benefits thereof. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" [or the negative thereof], and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the extent and impact of the coronavirus [COVID-19] outbreak on our business including any impact on our contract manufacturers and other third party service providers, our ability to enter into development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on a limited number of products; our dependency on protection from patents that will expire; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of certain products; the product approval process is highly unpredictable; the timing of completion of clinical trials, regulatory submissions and regulatory approvals; reliance on third parties to manufacture our products and events outside of our control that could adversely impact the ability of our manufacturing partners to supply products to meet our demands; we may be subject to future product liability claims; unexpected product safety or efficacy concerns may arise; we generate license revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; products in Canada may be subject to pricing regulation; dependence on key managerial personnel and external collaborators; no assurance that we will receive regulatory approvals in the U.S., Canada or any other jurisdictions and current uncertainty surrounding health care regulation in the U.S.; certain of our products are subject to regulation as controlled substances; limitations on reimbursement in the healthcare industry; limited reimbursement for products by government authorities and third-party payor policies; products may not be included on list of drugs approved for use in hospitals; hospital customers may make late payments or not make any payments; various laws pertaining to health care fraud and abuse; reliance on the success of strategic investments and partnerships; the publication of negative results of clinical trials; unpredictable development goals and projected time frames; rising insurance costs; ability to enforce covenants not to compete; risks associated with the industry in which we operate; we may be unsuccessful in evaluating material risks involved in completed and future acquisitions; we may be unable to identify, acquire or integrate acquisition targets successfully; legacy risks from operations conducted in the U.S.; inability to meet covenants under our long term debt arrangement; compliance with privacy and security regulation; our policies regarding returns, allowances and chargebacks may reduce revenues; certain current and future regulations could restrict our activities; additional regulatory burden and controls over financial reporting; reliance on third parties to perform certain services; general commercial litigation, class actions, other litigation claims and regulatory actions; the difficulty for shareholders to realize in the United States upon judgments of U.S. courts predicated upon civil liability of the Company and its directors and officers who are not residents of the United States; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent laws; litigation in the pharmaceutical industry

concerning the manufacture and supply of novel and generic versions of existing drugs; inability to protect our trademarks from infringement; shareholders may be further diluted if we issue securities to raise capital; volatility of our share price; the fact that we have a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; and our debt obligations will have priority over the common shares of the Company in the event of a liquidation, dissolution or winding up.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the "Risk Factors" section of this MD&A and the Annual Information Form for the year ended December 31, 2019, and elsewhere in our filings with Canadian securities regulators. Except as required by Canadian securities law, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

Market Industry Data

The market and industry data contained in this MD&A is based upon information from independent industry and other publications and our knowledge of, and experience in, the industry in which the Company operates. Market and industry data are subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data at any particular point in time, the voluntary nature of the data gathering process or other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data are not guaranteed. Cipher has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources**.**

Overview

Cipher [TSX: CPH] is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late-stage products. Cipher acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets these products directly in Canada or indirectly through partners in the U.S., Canada and Latin America.

Corporate Strategy

Cipher's corporate strategy is to build a portfolio of prescription products across a broad range of therapeutic areas that meet an unmet medical need. The focus of the Company's strategy is to:

- strategically market and distribute its Canadian commercial assets directly or indirectly, by way of partnerships;
- out-license products in markets where Cipher does not have a commercial presence;
- selectively invest in drug development programs where we see a favourable risk/return profile;
- distribute products through established sales organizations using a royalty based model; and
- conserve capital, maximize cashflow and eliminate debt.

The Company is actively assessing and sourcing opportunities that would build on the strengths of the organization, including a scalable commercial infrastructure in Canada. The execution of any transaction is contingent on the Company being able to negotiate acceptable terms and securing the necessary financing.

Significant Transactions and Developments

2020

TRULANCE® NOTICE OF TERMINATION

On January 13, 2020, the Company received a notice of termination from Bausch Health for alleged breach of contract in respect of its licensing agreement for Trulance. The Company is currently in arbitration with Bausch to resolve the matters contained within.

COVID-19

The Company is closely monitoring the developments of the Coronavirus-19 ["COVID-19"] situation. It is too soon to assess the impacts of the current outbreak, given the many unknowns related to COVID-19. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, severe travel restrictions and extreme fluctuations in financial and commodity markets. Additional measures may be implemented by one or more governments in jurisdictions where the Company operates. Labour shortages

due to illness, Company or government imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of the Company's operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain the COVID-19 or remedy its impact, among others.

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

2019

CREDIT FACILITY AMENDMENT

On March 31, 2019, the Company entered into a second amendment to its credit agreement with its Canadian lender. The amendment adjusts certain financial covenants for the remainder of the credit facility term, which matures on November 3, 2020.

On September 30, 2019, the Company entered into a third amendment to its credit agreement with its Canadian lender. The amendment adjusts certain financial covenants for the remainder of the credit facility term. In consideration for the amendment, the Company prepaid $2.0 million against the outstanding balance of the credit facility. There were no penalties associated with this prepayment.

TRULANCE®

On October 10, 2019, Cipher received a Notice of Compliance from Health Canada approving the sale of Trulance. The Company made a $0.8 million milestone payment relating to this regulatory achievement in January 2020.

Significant Partnerships

GALEPHAR

In 2002, the Company entered into a master licensing and clinical supply agreement [the "Galephar Agreement"] with Galephar, Pharmaceutical Research, Inc. ["Galephar"], a Puerto Rico based pharmaceutical research and manufacturing company. Under the Galephar Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER in various territories. In particular, the Company has the rights to sell, market and distribute, on a perpetual basis, as follows:

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

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

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

- *Oral Lidose® Technology*. Galephar's oral semi-liquid capsule drug delivery technology is a patent-protected drug delivery system. Active ingredients are incorporated in semi-solid or liquid compositions contained in capsules. This delivery system facilitates low manufacturing costs, while delivering super-bioavailability for relatively water-insoluble compounds. CIP-FENOFIBRATE and CIP-ISOTRETINOIN are based on the Lidose drug delivery system.

- *Oral Controlled-Released Bead Technology*. Galephar's multiple particle-controlled release capsule technology ["MPCRC"], is based on unique extrusion and spheronization methods, and produces beads containing up to 80% active ingredient. Each coated bead is a controlled release system in itself, and the multi-particulate system provides smooth consistent plasma levels

over an extended period of time. The system is virtually pH-independent enabling the product to be taken with or without food. MPCRC enables CIP-TRAMADOL ER.

In 2016, Galephar entered into an agreement with another party [the "Galephar Assignee"] to assign certain rights relating to CIP-ISOTRETINOIN in the U.S. market. The Company consented to this agreement, agreeing to remit revenue on the same terms as the Galephar Agreement from licensing and distribution within the U.S. for CIP-ISOTRETINOIN directly to the Galephar Assignee.

On May 11, 2017, the founder, vice president and a shareholder of Galephar was elected to the Company's board of directors as a non-independent member. As a result, Galephar is considered a related party.

Licensed Products

CIP-ISOTRETINOIN

United States - Absorica®

In 2012, Cipher's U.S. distribution partner Sun Pharmaceutical Industries, Inc. ["Sun"] [previously Ranbaxy Laboratories Inc.] launched CIP-ISOTRETINOIN under the trade name Absorica. According to IQVIA, the U.S. isotretinoin prescription market increased by 10% in the first quarter of 2020 compared to the first quarter of 2019.

Absorica is currently protected by five issued patents which are Orange Book listed and expire in September 2021. Galephar was issued a product patent [Patent Number 7,435,427] from the U.S. Patent and Trademark Office in 2008 with a second patent [Patent Number 8,367,102] issued in 2013. A third patent [Patent Number 8,952,064] was issued in February 2015 and the fourth and fifth patents [Patent Numbers 9,078,925 and 9,089,534, respectively] were issued in July 2015. The five patents are formulation-related patents describing the product ingredients.

In September 2013, Sun received a Paragraph IV Certification Notice from Actavis, notifying Sun that Actavis had filed an Abbreviated New Drug Application (ANDA) seeking to make and market a generic version of Absorica. A Paragraph IV Certification Notice is filed when the sponsor company of the ANDA believes that its generic product is not infringing on a particular patent and/or that such patent is not valid. A patent infringement lawsuit against Actavis was filed by Sun, Cipher and Galephar in October 2013 and, as a result, the ANDA was subject to a 30-month stay of FDA approval, beginning on the date the notification letter was received. In October 2015, the Company, along with Sun and Galephar, entered into a settlement agreement with Actavis that dismissed the patent litigation suit. As part of the settlement agreement, Cipher, Sun and Galephar entered into a non-exclusive license agreement with Actavis that will permit Actavis to commercially launch its generic isotretinoin product.

Under the terms of the agreement with Sun, the Company receives a royalty percentage in the mid-teens on net sales. Cipher's agreement with Sun is for a period of 10 years from the first commercial sale expiring in November 2022 and Sun has the right to extend the term for additional two year periods.

In July 2018, the Company amended its distribution and supply agreement [the "Sun Amendment"] with Sun for Absorica. The Sun Amendment provides Sun with the ability to launch new isotretinoin products prior to the expiration of the agreement in November 2022. The Company will receive a royalty until December 2024 based on U.S. net sales from Sun's isotretinoin product portfolio. In addition, the Absorica New Drug Application ["NDA"] will be returned to the Company on expiry of the agreement in November 2022. On February 3, 2020, Sun launched their new isotretinoin products under the brand name of Absorica LD.

On December 19, 2018, the Company received a Paragraph IV Certification Notice advising Sun, Sun Pharmaceuticals Industries Ltd. and Galephar that Upsher Smith Laboratories, LLC ["Upsher Smith"] has filed an ANDA with the FDA seeking approval to manufacture, use, or sell a generic version of Absorica [10 mg, 20 mg, and 30 mg] prior to the expiration of U.S. Patent Nos. 7,435,427; 8,367,102; 8,952,064; 9,078,925; and 9,089,534. On January 30, 2019, Sun, Cipher and Galephar filed a complaint against Upsher Smith asserting infringement of the five patents. On February 12, 2019, Upsher Smith filed its answer to the complaint. On or around September 16, 2019, Sun, Cipher, and Galephar received a second Paragraph IV Certification Notice from Upsher Smith, related to the 40 mg formulation of Absorica. On November 6, 2019, Sun, Cipher, and Galephar filed an Amended Complaint against Upsher Smith, which Upsher Smith answered on November 19, 2019. On March 9, 2020 an arbitration meeting was held. On April 21, 2020, the Company and Upsher Smith concluded a binding arbitration.

Rest of World

In 2014, the Company entered into a definitive distribution and supply agreement with Ranbaxy Laboratories Ltd. ["Ranbaxy India"], a Sun Pharma Company, under which Cipher granted Ranbaxy India the exclusive right to market, sell and distribute isotretinoin capsules in Brazil. Ranbaxy India plans to promote the product through a brand dermatology division in Brazil. Under the terms of this agreement, Cipher received an upfront payment and may be eligible for pre-commercial milestone payments. Cipher will supply the product and

product manufacturing will be fulfilled by Galephar. Ranbaxy India will be responsible for all regulatory-related activities associated with gaining and maintaining regulatory approval of the product in Brazil. The product is not currently approved in Brazil.

In January 2018, the Company entered into a distribution and supply agreement with Italmex Pharma S.A. ["Italmex"] granting Italmex the exclusive rights to market, sell and distribute isotretinoin products in Mexico. Under the terms of the agreement with Italmex, Cipher is eligible for regulatory and commercial milestone payments. Cipher will supply the product to Italmex, and product manufacturing will be fulfilled by Cipher's partner, Galephar. Italmex will be responsible for all regulatory activities associated with gaining and maintaining regulatory approval of the product in Mexico. The product is not currently approved in Mexico.

In August 2019, Italmex submitted their dossier to Mexican regulatory agency, COFEPRIS, for review. The dossier has been previously reviewed by a third party which could shorten the response time from COFEPRIS. Italmex expects a response from COFEPRIS by the second quarter of 2020. Upon approval, a milestone payment in the amount of $150,000 will be due.

Litigation

From time to time, during the ordinary course of business, the Company may be threatened with, or may be named as, a defendant in various legal proceedings, including lawsuits based upon product liability, wrongful dismissal, personal injury, breach of contract and lost profits or other consequential damage claims. Refer to "Significant Transactions and Developments – 2020 – Trulance Notice of Termination" above.

Summary of First Quarter Results of Operations

The interim consolidated statements of income and comprehensive income and interim consolidated statements of cash flows for the previously reported U.S. segment are presented as discontinued operations, separate from the Company's continuing operations which is comprised of the Canadian segment. This MD&A reflects only the results of continuing operations, unless otherwise noted.

The following information has been prepared in accordance with IFRS in U.S. dollars.

(IN THOUSANDS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Net revenues	**5,900**	**5,143**
Total operating expenses	**2,314**	**3,642**
Total other expenses	**13**	**262**
Income for the period from continuing operations	**2,477**	**816**
Income for the period from discontinued operations	**164**	**—**
Income from continuing operations per share:		
Basic and diluted earnings	**0.09**	**0.03**
Income from discontinued operations per share:		
Basic and diluted earnings	**0.01**	**—**
Total assets	**45,551**	**54,104**
Total non-current liabilities	**1,632**	**10,242**

The fluctuations in reported results during this period were primarily from the following:

- Canadian commercial product revenue increased by $0.7 million; and
- Operating expenses decreased primarily due to a reduction in selling, general and administrative costs.

For a detailed review of operating results, see "Review of Operating Results".

Review of Operating Results

REVENUE

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Licensing revenue	**3,346**	3,331
Product revenue	**2,554**	1,812
Net revenues	**5,900**	5,143

Total net revenue increased by $0.8 million or 15% to $5.9 million for the three months ended March 31, 2020 compared to $5.1 million for the three months ended March 31, 2019. The main driver for the increase was Canadian commercial product revenues.

Licensing Revenue

Licensing revenue was $3.3 million for the three months ended March 31, 2020 and for the three months ended March 31, 2019.

Licensing revenue from Absorica in the U.S. was $2.7 million for the three months ended March 31, 2020, remaining unchanged from $2.7 million for the three months ended March 31, 2019. Absorica's market share for the three months ended March 31, 2020 was approximately 6% compared to approximately 8% for the three months ended March 31, 2019.

Licensing revenue from Lipofen and the authorized generic version of Lipofen was $0.5 million for the three months ended March 31, 2020 remaining unchanged from $0.5 million for the three months ended March 31, 2019.

Licensing revenue from the extended-release tramadol product [ConZip in the U.S. and Durela in Canada] was $0.1 million for the three months ended March 31, 2020, remaining unchanged from $0.1 million for the three months ended March 31, 2019.

Product Revenue

Product revenue increased by $0.7 million or 41% to $2.6 million for the three months ended March 31, 2020 compared to $1.8 million for the three months ended March 31, 2019. Product revenue is transacted in Canadian dollars, in its native currency product revenue increased by 43% or $1.0 million.

Product revenue from Epuris increased to $2.4 million for the three months ended March 31, 2020 compared to $1.6 million for the three months ended March 31, 2019. While the specific reason for the increase is unknown, it is speculated that self isolating from COVID-19 led to stocking the channel to avoid shortages by our wholesalers and pre-filing of prescriptions. Additionally, with most price increases effective April 1, wholesalers can take advantage of lower prices in March. According to IQVIA, Epuris had a prescription market share of approximately 40% in Canada for the three months ended March 31, 2020 compared to 37% for the three months ended March 31, 2019.

Product revenue from Ozanex, Actikerall, Brinavess and Vaniqa was $0.2 million for the three months ended March 31, 2020 remaining unchanged from $0.2 million for the three months ended March 31, 2019.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Cost of products sold	**849**	644
Research and development	**24**	55
Selling, general and administrative	**1,441**	2,943
Total operating expenses	**2,314**	3,642

Total operating expenses decreased by $1.3 million or 36% to $2.3 million for the three months ended March 31, 2020 compared to $3.6 million for the three months ended March 31, 2019.

Cost of Products Sold

Cost of products sold increased by $0.2 million or 32% to $0.8 million for the three months ended March 31, 2020 compared to $0.6 million for the three months ended March 31, 2019, corresponding with the increase in product sales. Gross margin on product sales improved to 67% for the three months ended March 31, 2020 compared to 64% for the three months ended March 31, 2019. The improvement is primarily related to changes in government rebates required under the OHIP+ program, where the province is the payor of last resort.

Research and Development

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

Selling, General and Administrative

Selling, general and administrative ["SG&A"] expense was $1.4 million for the three months ended March 31, 2020, a decrease of $1.5 million or 51% compared to 2.9 million for the three months ended March 31, 2019. The decrease in SG&A costs was driven by an overall reduction in costs related to human resources and a reduction in sales and marketing spend.

Also included in SG&A is amortization of intangible assets of $0.2 million for the three months ended March 31, 2020 and March 31, 2019.

OTHER EXPENSES (INCOME)

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Interest expense	**124**	275
Change in fair value of derivative financial instrument	**(2)**	(12)
Interest income	**(28)**	(53)
Foreign exchange loss (gain)	**(81)**	52
Total other expenses	**13**	262

Total net other expenses for the three months ended March 31, 2020 was de minimus compared to $0.3 million for the three months ended March 31, 2019. The decrease relates to interest expense on the declining balance of the credit facility and a foreign exchange gain compared to a foreign exchange loss in the prior period. Interest expense also includes interest accretion on the lease obligation and the credit facility. The interest rate applicable on the credit facility during the first quarter of 2020 was 3.2% compared to 4.4% during the first quarter of 2019. The foreign exchange gain in largely due to the lease obligation that is denominated in Canadian dollars and the U.S. dollar strengthening.

INCOME TAXES

Income tax expense is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax expense for the three months ended March 31, 2020 was $1.1 million compared to $0.4 million for the three months ended March 31, 2019.

The Company has various non-capital losses of approximately $210 million and proactively works with its tax advisors to utilize these losses with the objective of minimizing the amount of cash taxes payable. However, at each reporting date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of various factors including projected taxable income.

As at March 31, 2020, the Company has recognized a deferred tax asset on the balance sheet of $0.6 million. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

INCOME AND INCOME PER SHARE

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Income for the period from continuing operations	**2,477**	816
Basic and diluted earnings per share from continuing operations	**0.09**	0.03
Income for the period from discontinued operations	**164**	—
Basic and diluted income per share from discontinued operations	**0.01**	—
Income and comprehensive income for the period	**2,641**	816
Basic and diluted earnings per share	**0.10**	0.03

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

Income from continuing operations per share on a basic and diluted basis for the three months ended March 31, 2020 was $0.09 compared to income per share on a basic and diluted basis of $0.03 for the three months ended March 31, 2019.

The weighted average number of shares outstanding for the three months ended March 31, 2020 was 27,000,865 [three months ended March 31, 2019 – 26,844,988].

The dilutive weighted average number of shares outstanding for the three months ended March 31, 2020 was 27,043,581 [three months ended March 31, 2019 – 27,080,040].

ADJUSTED EBITDA

EBITDA and Adjusted EBITDA are a non-IFRS financial measure. The term EBITDA [earnings before interest, taxes, depreciation and amortization] and Adjusted EBITDA (defined below) do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing a further understanding of operations from management's perspective. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation of property and equipment, amortization of intangible assets, loss on debt extinguishment, non-cash share-based compensation, changes in fair value of derivative financial instruments, impairment of intangible assets and foreign exchange gains and losses from the translation of Canadian cash balances.

The Company considers Adjusted EBITDA as a key metric in assessing business and management performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts.

Adjusted EBITDA for the three months ended March 31, 2020 was $4.1 million, an increase of $2.3 million or 132% compared to $1.8 million for the three months ended March 31, 2019.

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

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Income from continuing operations	**2,477**	816
Add back:		
Depreciation and amortization	**307**	299
Interest expense, net	**96**	222
Income taxes	**1,096**	423
EBITDA	**3,976**	1,760
Change in fair value of derivative financial instrument	**(2)**	(12)
Loss (gain) from the translation of Canadian cash balances	**54**	(26)
Share-based compensation	**44**	32
Adjusted EBITDA	**4,072**	1,754
Adjusted EBITDA per share – basic	**0.15**	0.07
Adjusted EBITDA per share – dilutive	**0.15**	0.07

Liquidity and Capital Resources

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended March 31, 2020**	Three months ended March 31, 2019
	$	$
Cash provided by operating activities	**5,389**	1,557
Cash used in investing activities	**(750)**	(1,177)
Cash used in financing activities	**(2,091)**	(2,250)
Cash used in discontinued operations	**—**	(589)
Net change in cash	**2,548**	(2,459)
Impact of foreign exchange on cash	**(54)**	26
Cash, beginning of period	**6,346**	10,357
Cash, end of period	**8,840**	7,924

Cash

As at March 31, 2020, the Company had cash of $8.8 million compared to $7.9 million as at December 31, 2019.

Operating Activities

Cash provided by operating activities was $5.4 million for the three months ended March 31, 2020 compared to $1.6 million for the three months ended March 31, 2019. Cash provided by operations, excluding working capital was $3.2 million for the three months ended March 31, 2020 compared to $1.7 million for the three months ended March 31, 2019. The increase in cash provided by operating activities reflects a recovery of $2.2 million of working capital compared to an investment of $0.1 million in working capital in the comparative period.

Investing Activities

Cash used in investing activities was $0.8 million for the three months ended March 31, 2020 compared to $1.2 million for the three months ended March 31, 2019. For the three months ended March 31, 2020, cash used in investing activities is the payment of a regulatory milestone achieved in respect of Trulance.

For the three months ended March 31, 2019, cash used in investing activities is primarily related to the purchase of property and equipment and a regulatory milestone payment in respect of Aclaris.

Financing Activities

Cash used in financing activities was $2.1 million for the three months ended March 31, 2020 compared to $2.3 million for the three months ended March 31, 2019. Financing activities primarily consists of principal payments on the credit facility and related interest costs.

Future cash requirements will depend on a number of factors, including investments in product launches, expenditures on R&D for product candidates, costs associated with maintaining regulatory approvals, the timing of payments received or made under licensing or other collaborative agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the acquisition of licenses for new products or technologies, the status of competitive products and the success of the Company in developing and maintaining markets for its products. Refer to “Significant Transactions and Developments – 2020 – COVID-19” for additional risks related to financing.

On July 19, 2018, the Company entered into an office lease agreement for its corporate operations. The new office is located in Oakville, Ontario and is the Company’s new registered address. The term of the lease is 10 years and three months, commencing on January 1, 2019. The total undiscounted commitment for the lease term as at March 31, 2020 is CDN$3.6 million.

Financial Instruments

As at March 31, 2020, the Company’s financial instruments consisted of cash, accounts receivable, accounts payable and accrued 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 are measured at amortized cost and their fair values approximate carrying values.

The credit facility is also measured at amortized cost. As at March 31, 2020, the fair value of the credit facility is approximately $5.7 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

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

Risk Management

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

Credit Risk

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

The Company has concentration risk, as approximately 84% of total revenue came from four customers and approximately 80% of total accounts receivable is due from two customers.

Liquidity Risk

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

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

The Company has financial covenants in its credit facility that are based on predefined trailing adjusted earnings before interest, taxes, depreciation and amortization [“EBITDA”] formula. The Company’s adjusted EBITDA is sensitive to significant fluctuations based on revenue from its licensing business. A significant decline in licensing revenue could impact the Company’s ability to repay the remaining balance of its credit facility, unless refinanced.

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 2020 and meet its debt obligations.

Currency Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company is exposed to currency risk through its net assets and certain recurring transactions that are denominated in Canadian dollars.

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. The credit facility bears interest that is pegged to LIBOR and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

Capital Risk Management

The Company's managed capital is comprised of cash, the credit facility and shareholders' equity. The Company's objective when managing its capital structure is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and finance strategic growth plans and financial obligations as they become due. In order to maintain or adjust its 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.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series. As at March 31, 2020, the Company had 27,030,417 common shares issued and outstanding compared to 26,911,814 common shares as at March 31, 2019. Subsequent to quarter end, 7,307 common shares were issued under the Company's employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 27,037,724 as of the date of this MD&A. No preference shares were issued and outstanding as at March 31, 2020.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Risk Factors

Reference is made to the description of risk factors with respect to the Company and its business in the Company's most recently filed Annual Information Form filed on SEDAR at www.sedar.com and to related information in other filings with Canadian securities regulatory authorities.

Disclosure Controls and Procedures

There have been no changes in the Company's internal control over financial reporting during the most recent interim period ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of the end of the period covered by this MD&A and the accompanying condensed interim consolidated financial statements, the Company's management evaluated the design of its disclosure controls and procedures and internal controls over financial reporting. Based on that evaluation, the Company's Interim Chief Executive Officer and Interim Chief Financial Officer have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of condensed interim consolidated financial statements for external purposes in accordance with IFRS as at March 31, 2020.

Selected Quarterly Information

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	**Mar 31, 2020**
	$
Net revenue	**5.9**
Income and comprehensive income for the period	**2.5**
Basic income per Common Share	**0.09**
Diluted income per Common Share	**0.09**

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2019
	$	$	$	$
Net revenue	5.9	5.8	5.6	5.1
Income (loss) and comprehensive income (loss) for the period	2.6	(2.1)	1.4	0.8
Basic income (loss) per Common Share	0.10	(0.08)	0.05	0.03
Diluted income (loss) per Common Share	0.10	(0.08)	0.05	0.03

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018
	$	$	$	$
Net revenue	6.4	4.8	7.0	4.6
Income (loss) and comprehensive income (loss) for the period	(0.6)	0.7	2.1	(1.0)
Basic income (loss) per Common Share	(0.02)	0.03	0.07	(0.04)
Diluted income (loss) per Common Share	(0.02)	0.03	0.07	(0.04)

Cipher Pharmaceuticals Inc.

Interim condensed consolidated financial statements
Unaudited
For the three months ended March 31, 2020

Cipher Pharmaceuticals Inc.

Interim consolidated statements of financial position

[in thousands of United States dollars – unaudited]

As at

	March 31, 2020	December 31, 2019
	$	$
Assets		
Current assets		
Cash	**8,840**	6,346
Accounts receivable	**6,982**	8,878
Inventory	**629**	1,043
Prepaid expenses and other assets	**546**	963
Total current assets	**16,997**	17,230
Property and equipment, net	**2,097**	2,198
Intangible assets, net	**10,139**	10,378
Goodwill	**15,706**	15,706
Deferred tax assets	**612**	943
Total assets	**45,551**	46,455
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities *[notes 10 & 12]*	**7,270**	8,594
Contract liability *[note 12]*	**174**	274
Current portion of lease obligation *[note 4]*	**113**	127
Credit facility *[note 3]*	**5,656**	7,620
Total current liabilities	**13,213**	16,615
Derivative financial instrument *[note 3]*	**6**	8
Lease obligation *[note 4]*	**1,626**	1,821
Total liabilities	**14,845**	18,444
Commitments and contingencies *[note 10]*		
Shareholders' equity		
Share capital *[note 5]*	**18,727**	18,677
Contributed surplus	**4,985**	4,981
Accumulated other comprehensive loss	**(9,514)**	(9,514)
Retained earnings	**16,508**	13,867
Total shareholders' equity	**30,706**	28,011
Total liabilities and shareholders' equity	**45,551**	46,455

See accompanying notes

Approved on behalf of the Board:

(Signed) "Craig Mull"
Craig Mull
Chair of the Board

(Signed) "Harold Wolkin"
Harold Wolkin
Director

Cipher Pharmaceuticals Inc.

Interim consolidated statements of income and comprehensive income

[in thousands of United States dollars – unaudited]

For the three months ended March 31

	2020	2019
	$	$
Revenue		
Licensing revenue *[note 6]*	**3,346**	3,331
Product revenue	**2,554**	1,812
Net revenue	**5,900**	5,143
Operating expenses		
Cost of products sold	**849**	644
Research and development	**24**	55
Selling, general and administrative *[notes 7 & 8]*	**1,441**	2,943
Total operating expenses	**2,314**	3,642
Other expenses (income)		
Interest expense *[note 3]*	**124**	275
Change in fair value of derivative financial instrument	**(2)**	(12)
Interest income	**(28)**	(53)
Foreign exchange loss (gain)	**(81)**	52
Total other expenses (income)	**13**	262
Income before income taxes from continuing operations	**3,573**	1,239
Current income tax expense	**765**	150
Deferred income tax expense	**331**	273
Total income tax expense	**1,096**	423
Income and comprehensive income from continuing operations	**2,477**	816
Income and comprehensive Income from discontinued operations *[note 12]*	**164**	—
Net income and comprehensive income for the period	**2,641**	816
Net income from continuing operations per common share *[note 9]*		
Basic	**0.09**	0.03
Diluted	**0.09**	0.03
Net income from discontinued operations per common share *[note 9]*		
Basic	**0.01**	—
Diluted	**0.01**	—

See accompanying notes

Cipher Pharmaceuticals Inc.

Interim consolidated statements of changes in shareholders' equity

[in thousands of United States dollars – unaudited]

For the three months ended March 31

	Share capital		Contributed surplus	Other comprehensive loss	Retained earnings	Total shareholders' equity
	[000s]	$	$	$	$	$
Balance, January 1, 2019	26,821	18,324	5,324	(9,514)	10,625	24,759
Net income for the period	—	—	—	—	816	816
Shares issued under the share purchase plan *[note 5]*	26	37	—	—	—	37
Shares issued under the Restricted Share Unit Plan	65	208	(208)	—	—	—
Share-based compensation expense *[note 5]*	—	—	26	—	—	26
Balance, March 31, 2019	26,912	18,569	5,142	(9,514)	11,441	25,638
Balance, January 1, 2020	**26,991**	**18,677**	**4,981**	**(9,514)**	**13,867**	**28,011**
Net income for the period	**—**	**—**	**—**	**—**	**2,641**	**2,641**
Shares issued under the share purchase plan *[note 5]*	**17**	**12**	**—**	**—**	**—**	**12**
Shares issued under the Restricted Share Unit Plan	**22**	**38**	**(38)**	**—**	**—**	**—**
Share-based compensation expense *[note 5]*	**—**	**—**	**42**	**—**	**—**	**42**
Balance, March 31, 2020	**27,030**	**18,727**	**4,985**	**(9,514)**	**16,508**	**30,706**

See accompanying notes

Cipher Pharmaceuticals Inc.

Interim consolidated statements of cash flows

[in thousands of United States dollars – unaudited]

For the three months ended March 31

	2020	2019
	$	$
Operating activities		
Income for the period from continuing operations	**2,477**	816
Add (deduct) items not affecting cash:		
Depreciation of property and equipment	**68**	87
Amortization of intangible assets	**239**	212
Share-based compensation	**44**	32
Foreign exchange gain on cash and lease obligation	**(107)**	(26)
Change in fair value of derivative	**(2)**	(12)
Interest on long-term debt	**124**	275
Deferred income taxes	**331**	273
	3,174	**1,657**
Changes in working capital balances related to operating operations:		
Accounts receivable	**1,896**	1,371
Inventory	**414**	202
Prepaid expenses and other assets	**234**	244
Accounts payable and accrued liabilities	**(393)**	(1,943)
Contract liability	**64**	26
Cash provided by operating activities	**5,389**	1,557
Investing activities		
Purchase of property and equipment	**—**	(685)
Gain on disposal of property and equipment	**—**	23
Acquisition of intangible assets	**(750)**	(515)
Cash used in investing activities	**(750)**	(1,177)
Financing activities		
Interest payments	**(48)**	(259)
Principal repayments	**(2,000)**	(2,000)
Payment of lease obligation	**(53)**	(22)
Proceeds from shares issued under the share purchase plan	**10**	31
Cash used in financing activities	**(2,091)**	(2,250)
Cash used in discontinued operations	**—**	(589)
Net increase (decrease) in cash during the period	**2,548**	(2,459)
Impact of foreign exchange on cash	**(54)**	26
Cash, beginning of period	**6,346**	10,357
Cash, end of period	**8,840**	7,924

See accompanying notes

Cipher Pharmaceuticals Inc.

Notes to interim condensed consolidated financial statements

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

1. Nature of operations

Cipher Pharmaceuticals Inc. ["Cipher"] and its subsidiaries [together the "Company"] is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late stage products. The Company acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada 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 209 Oak Park Blvd., Suite 501, Oakville, Ontario.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 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"] as issued by the International Accounting Standards Board 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, 2019, which have been prepared in accordance with IFRS, and are available on SEDAR at www.sedar.com. The interim condensed consolidated financial statements are based on accounting policies as described in the 2019 annual consolidated financial statements, except for the adoptions of new standards effective as of January 1, 2020.

The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned legal subsidiaries: Cipher US Holdings Inc., Cipher US Holdco LLC and Cipher Pharmaceuticals US LLC. On February 1, 2020, Cardiome Pharma Corp was amalgamated with Cipher. All significant inter-company balances and transactions have been eliminated upon consolidation.

The Board of Directors approved these interim condensed consolidated financial statements on May 7, 2020.

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

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

Any of these developments, and others, could have a material adverse effect on our business and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is reasonably possible that the estimates in the financial statements will change in the near term and the effect of the change will be material. Potential impacts may include, but are not limited to, impairment of long-lived assets and a change in the estimated credit loss on accounts receivable.

Fair value of financial instruments

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

As at March 31, 2020, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the interim consolidated statements of income and comprehensive income and is classified as Level 2 [as defined under IFRS]. Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values.

The credit facility is measured at amortized cost. As at March 31, 2020, the fair value of the credit facility is approximately $5,656. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

3. Credit facility

In November 2017, the Company entered into a credit agreement with a Canadian lender to extinguish its existing senior secured 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 senior secured notes. The credit facility has a three-year term, maturing November 3, 2020 and carries 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 US$10,000 of capacity, subject to customary terms and conditions. The Company is subject to certain financial and non-financial covenants. The credit facility is secured by the assets of the Company. The interest rate and effective interest rate applicable in the first quarter was approximately 3.2% and 3.3%, respectively.

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

The following is the continuity of the credit facility from January 1, 2020 to March 31, 2020:

	$
Balance, January 1, 2020	**7,620**
Accrued interest expense	**63**
Interest paid	**(48)**
Imputed interest accretion	**21**
Repayment	**(2,000)**
Balance, March 31, 2020	**5,656**

Derivative financial instrument

In April 2015, the Company issued 600,000 common share purchase warrants to the lender of the senior secured notes 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 Level 2 financial liability. Gains and losses on re-measurement are presented separately in the interim 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. Black-Scholes 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 March 31, 2020 and December 31, 2019 were $6 and $8, respectively.

The variables used to compute the fair value as at March 31, 2020 and December 31, 2019 are follows:

	March 31, 2020	**December 31, 2019**
Share price	**$0.49**	$1.15
Expected life	**2.0 years**	2.3 years
Volatility	**90.4%**	61.8%

4. Lease obligation

The Company has an office lease for its corporate operations head office. The term of the lease is 10 years and three months and commenced on January 1, 2019. The undiscounted commitment for the remaining lease term as at March 31, 2020 is approximately CDN$3,584.

5. Share capital

Authorized share capital

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

The Company has three share-based compensation plans: The Stock Option Plan [“SOP”], the Employee and Director Share Purchase Plan [“ESPP”] and the Restricted Share Units and Performance Share Units. Full descriptions of the three share-based compensation plans are included in note 14 “Share Capital” to the Company’s annual consolidated financial statements for the year ended December 31, 2019.

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 March 31, 2020, 17,028 shares were issued under the ESPP [three months ended March 31, 2019 – 25,864] at weighted average trading price of CDN $0.93 [three months ended March 31, 2019 – CDN $1.89]. Included in share-based compensation expense is $2 [three months ended March 31, 2019 – $6], which is the discount on the shares issued during the period.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2020 to March 31, 2020:

	Number of options [000s]	Weighted average exercise price [CDN $]
Balance, January 1, 2020	**618**	**3.70**
Forfeited/expired during the period	**(202)**	**4.20**
Balance, March 31, 2020	**416**	**3.46**

As at March 31, 2020, 226,460 options were fully vested and exercisable [March 31, 2019 – 368,975]. During the quarter, no stock options were exercised [three months ended March 31, 2019 – nil]. 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 total stock option expense for the three months ended March 31, 2020 is $30 [three months ended March 31, 2019 – $9 recovery].

The following information relates to stock options that were outstanding as at March 31, 2020:

Range of exercise prices [CDN $]	Number of options [000s]	Weighted average remaining contractual life [years]	Weighted average exercise price [CDN $]
1.16 – 2.88	**163**	**5.7**	**1.47**
3.04 – 5.39	**112**	**5.1**	**3.29**
6.19 – 13.88	**141**	**5.0**	**5.91**
	416	**5.3**	**3.46**

Restricted Share Unit [RSU] and Performance Share Unit [PSU] Plan

On May 13, 2015, the Company adopted an RSU and PSU Plan. RSUs and PSUs are notional share units exchangeable for common shares of the Company. RSUs are granted to all employees and directors of the Company and PSUs are granted to certain executives. RSUs granted to employees vest annually over three or

four years and RSUs granted to directors' vest over a one year period. There are no PSUs outstanding as at March 31, 2020.

A summary of the RSUs granted and outstanding as at March 31, 2020 is as follows:

	RSUs number of units [000s]
Balance, January 1, 2020	**65**
Granted during the period	**—**
Vested during the period	**22**
Forfeited/cancelled during the period	**—**
Balance, March 31, 2020	**43**

The total expense for RSUs for the three months ended March 31, 2020 is $12 [three months ended March 31, 2019 – $35].

6. Revenue

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

	Three months ended March 31, 2020 $	**Three months ended March 31, 2019** $
Licensing revenue		
Royalty revenue	**2,831**	3,015
Licensing product sales	**515**	316
Total licensing revenue	**3,346**	3,331

Notes to interim condensed consolidated financial statements

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

7. Expenses by nature

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

	Three months ended March 31, 2020 $	Three months ended March 31, 2019 $
Employee salaries and benefits expenses		
Salaries, bonuses and benefits	**280**	1,460
Share-based compensation	**44**	32
Total employee costs	**324**	1,492

For the three months ended March 31, 2020 and March 31, 2019, all employee salaries and benefits are recorded in selling, general and administrative expenses.

8. 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 March 31, 2020 $	Three months ended March 31, 2019 $
Salaries, bonuses and benefits	**133**	306
Share-based compensation	**27**	(26)
Directors' fees	**53**	61
	213	341

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

9. Net income per common share

Net income per share is calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended March 31, 2020 was 27,000,865 [three months ended March 31, 2019 – 26,844,988].

Diluted net income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted

average for the three months ended March 31, 2020 was 27,043,581 [three months ended March 31, 2019 – 27,080,040].

10. 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.

Licensing agreements with Galephar

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

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-ISOTRETINOIN directly to the Assignee.

During the three months ended March 31, 2020, the Company paid royalties of $413 [three months ended March 31, 2019 – $698] to Galephar. As at March 31, 2020, the amounts in accounts payable and accrued liabilities owed to Galephar were $1,831 [December 31, 2019 – $1,997]. 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.

11. Segmented information

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

The Company generated approximately 43% [2019 – 35%] of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.

12. Discontinued operations

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

As at March 31, 2020, the liabilities retained by the Company are $56 [December 31, 2019 – $237] recorded in accounts payable and accrued liabilities and nil [December 31, 2019 – $164] recorded in contract liability. During

the quarter, there was a reduction in the contract liability of $164, due to fewer product returns than what was provided for and the returns window related to those products have expired.