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PHARMACEUTICALS

2017 THIRD QUARTER REPORT

LETTER FROM THE CEO

Dear Shareholder:

We delivered another outstanding quarter for Cipher, with continued double-digit growth in revenue powered by the strong performance of our Absorica® and Epuris® products. Our third-quarter income from continuing operations also increased significantly, underscoring our exceptional execution to return the business to higher profitability.

We delivered another outstanding quarter for Cipher.

Total revenue increased by 29% to \$10.1 million for Q3 2017, compared with \$7.8 million for Q3 2016. It was an exceptional quarter for our global licensing business, led by Absorica. Total licensing revenue increased by 30% to \$8.9 million, and Absorica revenue increased to \$7.6 million, a 46% increase compared with Q3 2016. Absorica prescription demand enjoyed another strong quarter, increasing by 49% over last year's third quarter.

It was another strong quarter for our Canadian business, highlighted by 24% year-over-year sales growth. Epuris remains the primary driver, with prescriptions increasing by 30% on a year-to-date basis. The remainder of our Canadian portfolio delivered solid performance as well, highlighted by Actikerall™, a brand that is clearly differentiated in the market and one we are putting additional resources behind. During the quarter, our Canadian sales and marketing team continued to prepare for the launch of OZANEX™ in early Q1 2018. This complementary product further leverages our existing Canadian sales and marketing organization.

Our financial performance for the third quarter was also highlighted by significantly improved profitability. Adjusted EBITDA¹ increased by 62% to \$6.7 million and net income rose to \$3.9 million, or \$0.15 per basic share, compared to \$2.2 million, or \$0.08 per basic share, last year. These results reflect the revenue growth in the period, as well as our focus on operating efficiencies. Total operating expenses decreased by 15% in Q3 2017 to \$3.8 million and by 21% year to date.

Our financial position continues to strengthen. We generated robust cash flow in the third quarter, adding \$4.7 million to bring us to \$24.3 million at quarter end. In November, we achieved an important financial milestone

Over the past several quarters our team has accomplished a lot to make Cipher more competitive and more profitable.

by completing a new three-year, \$20 million term loan with CIBC. The proceeds were used to repay the remaining balance on the senior secured notes with Athyrium. This new facility allows us to significantly reduce our interest expense and better reflects Cipher's financial strength and condition.

Over the past several quarters our team has accomplished a lot to make Cipher more competitive and more profitable. With our growing cash balance, lower cost of capital, and improved cash flow from operations, we are even better positioned to execute on our growth plans. We are deploying significant resources toward business development, and are seeing this reflected in an expanding number of transaction opportunities for each of our growth strategies.

In summary, we are very pleased with the results of the third quarter and with the momentum of our business as we head into the fourth quarter and prepare for 2018.

I would like to thank our shareholders for their ongoing support and Cipher employees for delivering another quarter of strong performance. I look forward to updating you on our progress at year end.

Sincerely,

“Signed”

Robert Tessarolo

President and Chief Executive Officer

November 15, 2017

1) Refer to page 15.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2017

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") for the three and nine months ended September 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 Annual Financial Statements and Annual Information Form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ("MD&A") are as at November 2, 2017. 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 certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and other provincial securities law in Canada and U.S. securities laws. These forward-looking statements include, among others, statements with respect to our objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions, including, without limitation, statements with respect to repairs and the status of operations at the facilities of our manufacturing partner, Galephar Pharmaceutical Research ("Galephar"), in Puerto Rico, the anticipated timeframe for operations to resume at Galephar's Humacao facility and the anticipated impact of damage to Galephar's facilities on the supply of product by Cipher. 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, our ability to enter into in-licensing, 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; 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; reliance on third parties to manufacture our products; 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; 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; current uncertainty surrounding health care regulation in the United States; 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; 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 it operates; 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; 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 effects of our delisting from the NASDAQ Global Market (the "NASDAQ") and deregistration of our Common Shares under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"); 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; certain adverse tax rules applicable to U.S. holders of our Common Shares if we are a passive foreign investment company for U.S. federal income tax purposes; 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 actions of 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 in the event of a liquidation, dissolution or winding up. In addition, with respect to forward-looking statements relating to our manufacturing partner, Galephar, such factors include the ability of Galephar to complete repairs at its Humacao facility in a timely manner, the impact of damage to local infrastructure, the ability of Galephar and its contractors to source necessary materials and labour to complete necessary repairs, and damage to Galephar's facilities, in particular its Humacao facility, may be greater than initially assessed or determined.

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 our Annual Information Form and in our Management’s Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2016, 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 is 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 South America.

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. (see – Significant Transactions – U.S. Asset Sale). The Company no longer directly markets products in the U.S.

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 on the Company’s strategy is to:

- Acquire or in-license prescription medicines for the Canadian market;
- Acquire businesses with commercial products, proven capabilities or where substantial synergies are available;
- Out-license products in markets where Cipher does not have a commercial presence; and
- Selectively invest in drug development programs where we see a favourable risk/return profile.

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

U.S. ASSET SALE

On May 1, 2017, the Company sold substantially all of the assets of Cipher US (formerly known as Innocutis Holdings LLC). Under the terms of the asset purchase agreement (the “U.S. APA”), the Company received consideration of \$13.6 million, subject to certain working capital adjustments and the transfer of certain liabilities as set out in the U.S. APA. The Company retained responsibility for certain liabilities and commitments related to the assets sold. The agreement also included a potential regulatory milestone of \$0.75 million payable to the Company if certain predefined conditions are achieved and includes a hold back of \$1.7 million which will be settled 18 months from the date of closing. On closing, the Company received \$7.6 million in cash.

Prior to the Cipher U.S. asset sale, the Company operated two distinct business operations: Canada and the United States. Subsequent to the sale, the Company now operates one segment.

SENIOR SECURED NOTES

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 (the “Notes”) under the original Securities Purchase Agreement (the “Original SPA”), dated April 13, 2015. In connection with the Amendment, the Company agreed to prepay \$20.0 million 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 from the Original SPA. 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, the 5% prepayment penalty and an amendment fee (together, the "Financing fees"), which have been recognized as part of the loss on extinguishment. In consideration for the prepayment, the lender waived the requirement that the net cash proceeds from the sale of the U.S. assets be used to prepay the Notes, modified the financial covenants and removed its security interest on the assets of Cipher U.S.

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 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 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.

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.

In September 2017, Galephar's manufacturing facilities in Puerto Rico were impacted by Hurricane Maria. Galephar operates two manufacturing facilities in Puerto Rico. The facility in Humacao manufactures Absorica, Epuris, and Lipofen products, and the facility in Juncos manufactures Conzip and Durela products. Galephar informed Cipher that the facility in Juncos sustained some minor weather-related damage that has been repaired. Galephar also informed the Company that the facility in Humacao sustained damage to the exterior of the production building; however, the production suites and equipment were unaffected. On November 2, 2017 Galephar confirmed the resumption of production at both Juncos and Humacao manufacturing facilities and a stable long-term plan for power generation. With the supply chain restored, Cipher does not anticipate any impact to product supply.

Commercial Products

EPURIS® (CIP-ISOTRETINOIN)

CIP-ISOTRETINOIN is an innovative formulation of the active ingredient isotretinoin, which is used in the treatment of severe acne. CIP-ISOTRETINOIN, which is based on the oral Lidose® technology, has been in-licensed from Galephar. CIP-ISOTRETINOIN provides more consistent absorption under fed and fasted conditions, as compared to existing isotretinoin products. Due to its high lipophilicity, oral absorption of isotretinoin is enhanced when given with a high-fat meal. CIP-ISOTRETINOIN is bioequivalent to Accutane® (isotretinoin) capsules when both drugs are taken with a high-fat meal. However, when both drugs are taken under fasted conditions, CIP-ISOTRETINOIN provides 83% greater absorption than Accutane (isotretinoin) capsules.

CIP-ISOTRETINOIN was approved by Health Canada in Q4 2012 under the trade name Epuris[®] and Cipher launched the product in Canada in June 2013.

BETEFLAM[®] PATCH

In 2012, Cipher obtained the exclusive license and distribution rights in Canada to market the Beteflam[®] Patch (previously named the Betesil Patch), a novel, patent-protected, self-adhesive medicated plaster for the treatment of inflammatory skin conditions such as plaque psoriasis, from Institut Biochimique SA (“IBSA”). The Beteflam[®] Patch is expected to provide distinct advantages over existing treatment options, particularly for patients who suffer from plaque psoriasis in hard to treat areas such as knees and elbows. The efficacy and safety of the product has been established in three successful European phase III trials and one successful phase IV trial conducted by IBSA. The Beteflam[®] Patch is currently marketed in several European countries and was launched in Canada in April 2016.

Under the terms of the agreement with IBSA, IBSA supplies the finished product to Cipher and is eligible for certain milestones based on commercial and regulatory targets. The term of the agreement is for ten years, which commenced in August 2012 with an automatic renewal for an additional five year period.

ACTIKERALL[®]

Actikerall[®] (0.5% fluorouracil and 10% salicylic acid) is indicated for the topical treatment of slightly palpable and/or moderately thick hyperkeratotic actinic keratosis (Grade I/II) of the face, forehead, and balding scalp in immunocompetent adult patients. Actinic keratosis, also known as solar keratosis, is a skin condition caused by exposure to ultraviolet radiation. Cipher acquired Actikerall[®] from Almirall S.A. (“Almirall”) in May 2015 and the product was launched in Canada in February 2016. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of ten years, which commenced in April 2015 with automatic annual renewals.

VANIQA[®]

Vaniqa[®] is a prescription cream clinically proven to reduce the growth of unwanted facial hair in women. Vaniqa cream is an enzyme inhibitor and works by blocking an enzyme necessary for hair to grow. The product was approved by Health Canada in May 2001. Cipher acquired Vaniqa[®] from Almirall in May 2015. Under the terms of the agreement with Almirall, the Company pays a royalty on net sales that includes the transfer price for finished goods. Almirall supplies finished product to Cipher. The agreement is for a term of 10 years, which commenced in March 2015 with automatic annual renewals. The Company launched Vaniqa[®] in the Canadian market in June 2015.

Licensed Products

CIP-ISOTRETINOIN

United States - Absorica[®]

In 2012, Cipher’s U.S. distribution partner Ranbaxy Laboratories Inc. (“Ranbaxy”) a Sun Pharma Company, launched CIP-ISOTRETINOIN under the trade name Absorica[®]. According to IMS Health (“IMS”), the U.S. isotretinoin market was over \$643 million in 2016.

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, Ranbaxy received a Paragraph IV Certification Notice of filing from Actavis of an abbreviated new drug application (“ANDA”) to the Food and Drug Administration (“FDA”) for a generic version of Absorica[®] (isotretinoin capsules). A Paragraph IV Certification Notice is when the sponsor company of the ANDA believes that it is not infringing the patent and/or the patent is not valid. A patent infringement lawsuit against Actavis was filed by Ranbaxy, 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 Ranbaxy and Galephar, entered into a settlement agreement with Actavis that dismissed the patent litigation suit. As part of the settlement agreement, Cipher, Ranbaxy and Galephar entered into a non-exclusive license agreement with Actavis under which Actavis may begin selling its generic version of Absorica[®] in the U.S. on December 27, 2020 (approximately nine months prior to the expiration of the patents in September 2021) or earlier under certain circumstances.

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

Rest of World

In 2014, the Company entered into a distribution and supply agreement with Laboratorios Andrómaco S.A. ("Andrómaco") under which Cipher granted Andrómaco the exclusive right to market, sell and distribute Cipher's isotretinoin capsules in Chile. The registration process was completed for 10 mg, 20 mg and 30 mg strengths, however, Andrómaco did not launch the product. In January 2017, the Company terminated this agreement. The Company is looking for a new licensing partner for this market.

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 additional 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.

LIPOFEN® (CIP-FENOFIBRATE)

Lipofen® is a novel formulation of the active ingredient fenofibrate, which is used in the treatment of hyperlipidemia, a cholesterol disorder. Hyperlipidemia is a condition characterized by high levels of low-density lipoprotein ("LDL") cholesterol and/or triglycerides (a type of fat found in the blood). Fenofibrate is known to lower LDL cholesterol and triglycerides and increase high-density lipoproteins ("HDL"), known as "good cholesterol". Cipher's U.S. marketing and distribution partner for Lipofen® is Kowa Pharmaceuticals America, Inc. ("Kowa").

According to IMS, the hyperlipidemia market in the U.S. exceeded \$11 billion in 2016 and is made up of three primary groups of drugs: statins, fibrates and the prescription DHA/EPA (omega 3) market. The market for existing fenofibrate formulations in the U.S. exceeded \$630 million in 2016.

Lipofen® was launched in the U.S. market in 2007. In 2014, Cipher and Kowa agreed to pre-emptively launch an authorized generic version of Lipofen® in advance of the expiration of the product patent in January 2015.

CONZIP® / DURELA® (CIP-TRAMADOL ER)

CIP-TRAMADOL ER is a novel, extended-release formulation of the active ingredient tramadol, which is used for the management of moderate to moderately severe pain. CIP-TRAMADOL ER uses oral controlled-release beads, a drug delivery technology licensed from Galephar. Patents that expire in 2022 have been issued both in the U.S. and Canada for the product.

United States

The product received FDA approval in 2010. In June 2011, Cipher entered into a distribution and supply agreement with Vertical Pharmaceuticals Inc. ("Vertical"), a U.S. based specialty pharmaceutical company and the product was launched in the U.S. in September 2011 under the trade name ConZip®. Under the terms of the agreement with Vertical, the Company receives a mid-teen royalty on net sales. The Company is responsible for product supply and manufacturing, which is fulfilled by Galephar.

According to IMS, the U.S. market in 2016 for extended release formulations of tramadol exceeded \$50 million, which represents 43% of the total tramadol immediate release and extended release prescription market. An authorized generic version of the product was launched by Vertical in the U.S. market in July 2015.

In 2016, the FDA required a new black box warning for tramadol products on the risks of addiction, abuse, misuse, life-threatening respiratory depression and interactions with central nervous system depressants including alcohol. In 2017, the FDA requested further class/labelling requirements to the black box warning with respect to the pediatric population.

In June 2017, the Company requested a full waiver from a post marketing pediatric study to assess the pharmacokinetics, efficacy and safety of tramadol for the management of moderate to moderately severe chronic pain in pediatric patients aged 2 to 17. In August 2017, the Company received a partial waiver from the FDA that amended the age group required for the study. The new requirement is to study the pharmacokinetics, efficacy and safety of ConZip® for the management of pain severe enough to require daily around-the-clock, long-term opioid treatment for which alternative treatment options are inadequate in pediatric patients ages 12 to less than 17 years. The Company is reviewing the response from the FDA with its advisors to determine the path forward.

In August 2017, the Company received a warning letter issued by the Office of Prescription Drug Promotion of the FDA relating to the professional detail aids for ConZip®. The warning letter was addressed to the Company as the New Drug Applicant holder. The

Company's licensing partner, Vertical holds the exclusive U.S. license to market, sell and distribute ConZip®. As the exclusive commercial distributor of ConZip® in the U.S., Vertical is responsible for preparing and approving all marketing and promotional materials. Vertical has informed Cipher that it has taken immediate corrective actions and has commenced a corrective action communication to healthcare professionals. The parties are committed to resolving this matter and additional corrective actions will be taken as considered necessary or advisable.

In September 2017, the Company received a letter from the FDA for a post-approval Risk Evaluation and Mitigation Strategy ("REMS"). This is an industry REMS program and the Company is working with the consortium to review the requirements and the path forward.

Canada

In August 2011, Cipher received Health Canada approval for CIP-TRAMADOL ER and in September 2011, Cipher entered into a distribution and supply agreement with Medical Futures Inc. ("Medical Futures"), a Canadian-based pharmaceutical company, under which Cipher granted Medical Futures the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Canada under the trade name Durela®. Medical Futures was subsequently acquired by Tribute Pharmaceuticals Canada Inc. ("Tribute") and during the same month POZEN Inc. announced the completion of the acquisition of Tribute. Effective, February 5, 2016, the new combined company was named Aralez Pharmaceuticals Inc. The Company receives a royalty on net sales of Durela in Canada. Cipher will supply the product and product manufacturing will be fulfilled by Galephar.

According to IMS, the Canadian market for extended-release tramadol was approximately CDN\$28.0 million in 2016.

Health Canada has required market authorization holders of tramadol products to conduct an abuse potential observational study. Cipher is part of the consortium of Canadian tramadol manufacturers overseeing and funding this study. The study will commence upon determination of the consortium and the total cost estimate is approximately \$2.0 million which will be shared by the consortium.

Rest of World

In April 2013, Cipher entered into a distribution and supply agreement with Tecnofarma International Ltd. ("Tecnofarma") under which Tecnofarma was granted the exclusive right to market, sell and distribute CIP-TRAMADOL ER in Latin America. Tecnofarma, headquartered in Uruguay, operates in 18 Latin American countries and plans to launch the product in certain territories, including Brazil and Mexico. Under the terms of the agreement, Cipher received an upfront payment and is eligible for additional milestones based upon regulatory approval in Brazil and Mexico. Cipher will supply product to Tecnofarma and product manufacturing will be fulfilled by Galephar. Tecnofarma launched CIP-TRAMADOL ER in Argentina in May 2016.

Product Pipeline

The Company continues to pursue the acquisition or in-licensing of new early to late-stage to commercial-stage product candidates.

OZENOXACIN

In 2015, Cipher in-licensed the Canadian rights to OZANEX™ (ozenoxacin 1%), a topical treatment for adult and paediatric patients with impetigo, from Ferrer International SA ("Ferrer"), a privately-held Spanish pharmaceutical company. Under the terms of the agreement, Ferrer received an upfront payment and is eligible for development milestones and revenues from product sales in Canada. Ferrer will manufacture OZANEX™ and deliver finished product to Cipher.

On May 2, 2017, Cipher received a Notice of Compliance from Health Canada, approving the sale of OZANEX™. The Company paid a CDN \$0.2 million milestone to Ferrer upon obtaining regulatory approval in Canada. Under this agreement, all milestones have been paid. The Company is targeting a product launch in the first quarter of 2018. Cipher is not responsible for any future development costs, should any be required.

SITAVIG®

Sitavig® is a unique, timed-release, mucoadhesive buccal tablet containing acyclovir indicated for the treatment of recurrent herpes labialis (cold sores) in immunocompetent adults. The prescription herpes labialis market is largely genericized. The Company's New Drug Submission for Sitavig® was accepted for review by Health Canada in March 2017, however, in evaluating the business case for Sitavig® in Canada, the Company decided not to move forward with this program.

DERMADEXIN™ AND, PRURIDEXIN™

In 2015, Cipher acquired the worldwide rights to three products from Astion Pharma ("Astion"), a Denmark-based specialty pharmaceutical company. The three products are focused on inflammatory dermatological diseases: Dermadoxin™, Pruridexin™, and

ASF-1096. Dermadexin™ and Pruridexin™ target common, chronic conditions that the Company believes are insufficiently addressed today. The terms of the agreement with Astion included an upfront payment of \$6.0 million. The agreement includes approximately \$34.1 million in additional payments contingent upon clinical milestones, regulatory approvals, commercialization and sales milestones in the both the U.S. and other regions. Over time, Cipher expects to out-license the products to partners in certain other regions.

In Q3 2015, Cipher received an Acceptance Review Notification for its 510(k) submissions for both Dermadexin™ and Pruridexin™ to the FDA. The notification confirmed that the submission contained all of the necessary elements and information needed to proceed with the substantive review. The FDA put the review on hold due to the uncertainty of the functions of the ingredients. The FDA requested that Cipher submit a “Request for Determination” (“RFD”) to the Office of Combination Products to determine whether the products are considered drugs or devices. In April 2016, Cipher submitted an informal RFD for Dermadexin™ and received a non-binding regulatory determination that the product, which contained nicotinamide (a new ingredient not listed in the device database) should be reviewed under the jurisdiction of the Center for Drug Evaluation and Research (CDER).

In July 2017, Cipher submitted a Pre-RFD with additional supporting information. The FDA determination remained the same, the product is a combination product comprised of two components; of a device, paraffin and a drug, pyridine-3-carboxamide and should be assigned to CDER.

The Company is actively seeking a partner for Dermadexin and Pruridexin in the U.S.

In April 2016, Cipher received Health Canada approvals (via Natural and Non-Prescription Health Products Directorate “NNHPD”) for DexiDerm SD Cream and DexiDerm AD Cream (also known as Dermadexin™ and Pruridexin™). DexiDerm CD was approved by the NNHPD in August 2016 and DexiDerm Scalp was approved in November 2016. The Company is actively seeking a partner for the DexiDerm portfolio in Canada.

Helioclin® Dermatitis SD Cream (also known as Dermadexin™) was approved in Europe in 2014 and Helioclin® Pruritus SD Cream (also known as Pruridexin™) was approved in April 2016, each as a Class III medical device. The Company is actively seeking a partner for Dermadexin in Europe.

ASF-1096

Cipher has an orphan drug indication in the European Union for ASF-1096, a product candidate in the European market that the Company believes has promise as a treatment for discoid lupus erythematosus, a highly disfiguring rare disease with no current cure, as well as other potential rare conditions. In the U.S., this indication does not meet the requirements for orphan drug status. Cipher is reviewing the drug development program and potential indications to support the approval of ASF-1096 in the North American and European markets. In June 2016, Cipher entered into a definitive licensing agreement with Edesa Biotech Inc. (“Edesa”), under which Cipher granted Edesa the exclusive worldwide rights to develop, market and sell ASF-1096 for the treatment of anorectal indications. Under the terms of the agreement, Cipher is eligible to receive clinical, regulatory and commercial milestone payments, along with a royalty on net sales.

CF101

In 2015, Cipher in-licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite Biopharma Ltd. (“Can-Fite”) for moderate to severe plaque psoriasis and rheumatoid arthritis.

Can-Fite completed a phase II/III double-blind, placebo-controlled study, which was designed to test the efficacy of CF101 in patients with moderate to severe plaque psoriasis. The study enrolled 326 patients through 17 clinical centers in the U.S., Europe, and Israel. Top-line results from the trial were published by Can-Fite at the end of March 2015. Results from this phase II/III trial and final results from the prior phase II trial in psoriasis were both positive showing that CF101 effectively improved disease symptoms. In addition, at the end of 2013, Can-Fite completed a phase IIb study for CF101 for active rheumatoid arthritis (“RA”). Can-Fite is commencing two phase III programs, one for RA and one for psoriasis. Can-Fite is enrolling patients into the phase III RA program and expects to start patient enrolment in the psoriasis phase III program in the first quarter of 2018. The timeline to regulatory submissions to Health Canada will be determined by the successful completion of these registration clinical trial programs. Cipher is not responsible for any of these development costs.

Approximately 500,000 people in Canada receive treatment for psoriasis. In moderate to severe cases, the most common treatment options are systemic biologic drugs, which are delivered by injection or intravenous infusion and have well-known shortcomings, including increased risk of infection. CF101 is an oral small molecule drug formulated in a tablet and has an excellent human safety profile, demonstrated in more than 1,000 patients.

Under the terms of the agreement, Can-Fite received an upfront payment of \$1.65 million and is eligible for milestone payments of up to \$2.0 million and royalties from product sales in Canada. The agreement provides that Can-Fite will deliver finished product to Cipher.

NANOLIPOLEE-007

In 2014, Cipher acquired the assets of Melanovus Oncology Inc. (“Melanovus”), a Pennsylvania-based life sciences company. The assets included seven pre-clinical compounds for the treatment of melanoma and other cancers, with world-wide rights. The lead product candidate, Nanolipolee-007, is a liposomal formulation of a plant-derived compound that is a cholesterol-transport inhibitor which has demonstrated anti-proliferative activity against certain melanoma cell lines (including B-RAF resistant strains) in-vitro as well as in early in-vivo studies. In October 2017, the Company made a strategic decision not to move forward with this program and has provided notice of termination to the seller.

TATTOO REMOVAL CREAM

In May 2016, Cipher licensed from Dalhousie University the worldwide rights to develop, market and sell an investigational tattoo removal cream. The product candidate, which is applied topically, has shown encouraging results in pre-clinical testing for the removal or reduction of the appearance of tattoos. The product candidate is currently at the pre-clinical stage of development.

Under the terms of the agreement, an upfront payment of CDN\$75,000 was made upon execution of the agreement and the agreement contains milestones of up to CDN\$3.6 million based on future regulatory and commercial sales milestones, as well as royalties on commercial sales.

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.

Selected Quarterly Information

The interim consolidated statements of income (loss) and comprehensive income (loss) and interim consolidated statements of cash flow 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. Certain prior period financial information on the consolidated statements of income (loss) and comprehensive income (loss) and the consolidated statements of cash flows have been updated to present the U.S. segment as a discontinued operation, and has therefore been excluded from both continuing operations and results for all periods presented in this MD&A and the accompanying interim condensed consolidated financial statements. This MD&A reflects only the results of continuing operations, unless otherwise noted.

The loss from discontinued operations included in the consolidated statement of income (loss) and comprehensive income (loss) was \$1.2 million and \$6.2 million for the three and nine months ended September 30, 2017 compared to a loss from discontinued operations of \$24.0 million and \$32.1 million for the three and nine months ended September 30, 2016.

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

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Net revenues	10.1	7.8	28.1	23.2
Total operating expenses	3.8	4.5	10.8	13.7
Total other expenses	1.1	0.8	8.3	4.4
Income for the period from continuing operations	3.9	2.2	6.8	4.2
Loss for the period from discontinued operations	(1.2)	(24.0)	(6.2)	(32.1)
Income from continuing operations per share:				
Basic earnings	0.15	0.08	0.26	0.16
Diluted earnings	0.15	0.08	0.25	0.16
Loss from discontinued operations per share:				
Basic and diluted loss	(0.05)	(0.89)	(0.23)	(1.22)
Total assets from continuing operations	56.5	59.3	56.5	59.3
Total non-current liabilities from continuing operations	20.7	37.0	20.7	37.0

The fluctuations in reported results during these periods resulted primarily from the following factors:

- In Q3 2017, the Company incurred restructuring charges of \$0.2 million reported in operating expenses and an intangible asset impairment charge of \$0.6 million reported in other expenses
- In Q2 2017, the Company incurred restructuring costs of \$0.6 million reported in operating expenses
- In Q1 2017, the Company recognized a loss on debt extinguishment of \$5.2 million related to the early partial prepayment of the Notes

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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Licensing revenue	8,851	6,811	24,369	20,203
Product revenue	1,239	1,000	3,779	3,039
Net revenues	10,090	7,811	28,148	23,242

Total net revenue increased by \$2.3 million or 29% to \$10.1 million for the three months ended September 30, 2017 compared to \$7.8 million for the three months ended September 30, 2016. Total net revenue increased by \$4.9 million or 21% to \$28.1 million for the nine months ended September 30, 2017 compared to \$23.2 million for the nine months ended September 30, 2016.

Licensing Revenue

Licensing revenue increased by \$2.0 million or 30% to \$8.9 million for the three months ended September 30, 2017 compared to \$6.8 million for the three months ended September 30, 2016.

Licensing revenue from Absorica® in the U.S. was \$7.6 million for the three months ended September 30, 2017, an increase of \$2.4 million or 46% compared to \$5.2 million for the three months ended September 30, 2016. The increase in licensing revenue from Absorica® is attributable to a promotional campaign that our partner implemented in March 2017, a portion of which was completed in June 2017 with the balance of the program ended in the third quarter. Licensing revenue from Lipofen® and the authorized generic version of Lipofen® was \$1.0 million for the three months ended September 30, 2017, a decrease of \$0.2 million compared to revenue of \$1.2 million for the three months ended September 30, 2016. Licensing revenue from the extended-release tramadol product (ConZip® in the U.S. and Durela® in Canada) was \$0.3 million for the three months ended September 30, 2017, a decrease of \$0.1 million compared to revenue of \$0.4 million for the three months ended September 30, 2016.

Licensing revenue increased by \$4.2 million or 21% to \$24.4 million for the nine months ended September 30, 2017 compared to \$20.2 million for the nine months ended September 30, 2016.

Licensing revenue from Absorica® in the U.S. was \$20.8 million for the nine months ended September 30, 2017, an increase of \$5.3 million or 34% compared to \$15.5 million for the nine months ended September 30, 2016. Licensing revenue from Lipofen® and the authorized generic version of Lipofen® was \$2.9 million for the nine months ended September 30, 2017, a decrease of \$0.2 million compared to \$3.1 million for the nine months ended September 30, 2016. Licensing revenue from the extended-release tramadol product (ConZip® in the U.S. and Durela® in Canada) was \$0.7 million for the nine months ended September 30, 2017, a decrease of \$0.9 million compared to revenue of \$1.6 million for the nine months ended September 30, 2016.

Product Revenue

Product revenue increased by \$0.2 million or 24% to \$1.2 million for the three months ended September 30, 2017 compared to \$1.0 million for the three months ended September 30, 2016.

Product revenue from Epuris® increased to \$1.1 million for the three months ended September 30, 2017 compared to \$0.9 million for the three months ended September 30, 2016. According to IMS, the Canadian market for isotretinoin was CDN\$18.3 million in 2016. Epuris® had a prescription market share of over 30% in Canada for the three months ended September 30, 2017 compared to 24% for the three months ended September 30, 2016.

Product revenue increased by \$0.8 million or 24% to \$3.8 million for the nine months ended September 30, 2017 compared to \$3.0 million for the nine months ended September 30, 2016.

Product revenue from Epuris® to \$3.3 million for the nine months ended September 30, 2017, and increase of \$0.6 million compared to \$2.7 million for the nine months ended September 30, 2016. Prescriptions for Epuris® during the nine months ended September 30, 2017 increased by approximately 30% over the comparative period in the prior year (source: IMS).

Product revenue for the remaining brands, Beteflam®, Actikerall® and Vaniqa® was \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2017, respectively compared to \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2016, respectively.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Cost of products sold	395	360	1,210	1,027
Research and development	117	74	286	460
Selling, general and administrative	3,326	4,069	9,329	12,189
Total operating expenses	3,838	4,503	10,825	13,676

Total operating expenses decreased \$0.7 million or 15% to \$3.8 million for the three months ended September 30, 2017 compared to \$4.5 million for the three months ended September 30, 2016. For the nine months ended September 30, 2017 total operating costs decreased \$2.9 million or 21% to \$10.8 million compared to \$13.7 million for the nine months ended September 30, 2016.

Cost of Products Sold

Cost of products sold for the three months ended September 30, 2017 and September 30, 2016 remained unchanged at \$0.4 million. Gross margin on product sales improved to 68% for the three months ended September 30, 2017 compared to 64% for the three months ended September 30, 2016.

Cost of products sold for the nine months ended September 30, 2017 was \$1.2 million compared to \$1.0 million for the nine months ended September 30, 2016. Gross margin on product sales improved to 68% for the three months ended September 30, 2017 compared to 66% for the three months ended September 30, 2016.

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.

R&D expense was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively compared to \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2016, respectively.

Selling, General and Administrative

Selling, general and administrative (“SG&A”) expense was \$3.3 million for the three months ended September 30, 2017, a decrease of \$0.8 million or 18% compared to \$4.1 million for the three months ended September 30, 2016. SG&A expense was \$9.3 million for the nine months ended September 30, 2017, a decrease of \$2.9 million or 23% compared to \$12.2 million for the nine months ended September 30, 2016. The decrease in SG&A costs were driven by an overall reduction in compensation costs, including share-based compensation and a reduction in professional fees. Included in SG&A for the three and nine months ended September 30, 2017 was restructuring charges of \$0.2 million and \$0.8 million, respectively.

Also, included in SG&A is amortization of intangible assets of \$0.2 million for the three months ended September 30, 2017 and September 30, 2016, respectively. Amortization of intangibles assets for the nine months ended September 30, 2017 was \$0.6 million compared to \$0.8 million for the nine months ended September 30, 2016.

OTHER EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Interest on senior secured notes	631	1,858	2,707	6,334
Change in fair value of derivative financial instrument	(80)	(1,122)	(88)	(996)
Loss on debt extinguishment	-	-	5,223	-
Interest income	-	(4)	(5)	(52)
Impairment of intangibles assets	561	-	561	-
Foreign exchange loss (gain)	(34)	27	(93)	(907)
Total other expenses	1,076	759	8,305	4,379

Total other expenses for the three months ended September 30, 2017 and 2016 were \$1.1 million and \$0.8 million, respectively. The increase in the three months ended September 30, 2017 is primarily attributable to the impairment of intangible assets.

Total other expenses for the nine months ended September 30, 2017 and 2016 were \$8.3 million and \$4.4 million, respectively. The increase is primarily related to the \$5.2 million loss on debt extinguishment offset by a reduction in interest expense.

Interest on Senior Secured Notes

Interest on senior secured notes decreased to \$0.6 million for the three months ended September 30, 2017 compared to \$1.9 million for the three months ended September 30, 2016. Interest on senior secured notes for the three months ended September 30, 2017 is comprised of interest payments of \$0.5 million and imputed interest accretion of \$0.1 million.

Interest on the senior secured notes for the nine months ending September 30, 2017 was \$2.7 million compared to \$6.3 million for the nine months ending September 30, 2016. Interest on senior secured notes for the nine months ended September 30, 2017 is comprised

of interest payments of \$2.1 million and imputed interest accretion of \$0.6 million. The stated interest rate on the Notes is 10.25%. The decrease is related to the prepayment on the Notes in the amount of \$20.0 million in April 2017.

Change in Fair Value of Derivative Financial Instrument

The gain from the change in the fair value of the derivative financial instrument was \$0.1 million for the three months ended September 30, 2017 compared to a gain of \$1.1 million for the three months ended September 30, 2016. The change in fair value of the derivative financial instrument was a gain of \$0.1 million for the nine months ended September 30, 2017 compared to a gain of \$1.0 million for the nine months ended September 30, 2016.

Loss on Debt Extinguishment

The increase in the nine months ended September 30, 2017 related to the loss on the debt extinguishment, which is the difference between the carrying value of the original Notes and the fair value of the Notes on extinguishment, including the prepayment fee of \$1.0 million, a borrowing fee of \$1.0 million and amendment fee of \$0.5 million.

Impairment of Intangible Assets

During the third quarter of 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 notice of termination to the seller. The Company recorded an impairment charge of \$561, representing the net book value of those assets.

Foreign Exchange

The Company experienced a de minimus foreign exchange gain for the three and nine months ended September 30, 2017 compared to a de minimus foreign exchange loss for the three months ended September 30, 2016 and a \$0.9 million gain for the nine months ended September 30, 2016. The Company is exposed to currency risk through its net assets and certain recurring transactions denominated in Canadian dollars.

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 and nine months ended September 30, 2017 was \$1.3 million and \$2.2 million, respectively compared to \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2016, respectively. The increase is attributable to increase in profitability thereby drawing down the deferred tax asset.

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income.

As at September 30, 2017, the Company has recognized a deferred tax asset on the balance sheet of \$4.6 million. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

INCOME (LOSS) AND INCOME (LOSS) PER SHARE

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Income for the period from continuing operations	3,923	2,222	6,798	4,238
Basic earnings per share from continuing operations	0.15	0.08	0.26	0.16
Diluted earnings per share from continuing operations	0.15	0.08	0.25	0.16
Loss for the period from discontinued operations	(1,184)	(24,010)	(6,214)	(32,091)
Basic and diluted loss per share from discontinued operations	(0.05)	(0.89)	(0.23)	(1.22)
Income (loss) and comprehensive (loss) for the period	2,739	(21,788)	584	(27,853)
Basic earnings (loss) per share	0.10	(0.81)	0.03	(1.06)
Diluted earnings (loss) per share	0.10	(0.81)	0.02	(1.06)

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated taking into account dilutive instruments that are outstanding. For the three months ended September 30, 2017, the computation of diluted earnings per share approximates the basic earnings per share due to the de minimus impact of dilutive instruments.

Income from continuing operations per share on a basic basis for the three and nine months ended September 30, 2017 was \$0.15 and \$0.26, respectively compared to income per share on a basic basis of \$0.08 and \$0.16 for the three and nine months ended September 30, 2016, respectively.

Income from continuing operations per share on a diluted basis for the three and nine months ended September 30, 2017 was \$0.15 and \$0.25, respectively compared to income per share on a diluted basis of \$0.08 and \$0.16 for the three and nine months ended September 30, 2016, respectively.

The weighted average number of shares outstanding for the three and nine months ended September 30, 2017 was 26,656,840 and 26,527,383, respectively (three and nine months ended September 30, 2016 – 26,799,312 and 26,160,849, respectively).

The dilutive weighted average number of shares outstanding for the three and nine months ended September 30, 2017 was 26,826,260 and 26,896,636, respectively (three and nine months ended September 30, 2016 – 26,495,705 and 26,682,408, respectively).

ADJUSTED EBITDA

(IN THOUSANDS OF U.S. DOLLARS)

EBITDA is a non-IFRS financial measure. The term EBITDA (earnings before interest, taxes, depreciation and amortization) does 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 goodwill 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 September 30, 2017 was \$6.7 million, an increase of \$2.6 million or 62% compared to \$4.1 million for the three months ended September 30, 2016.

Adjusted EBITDA for the nine months ended September 30, 2017 was \$18.5 million, an increase of \$5.7 million or 44% compared to \$12.9 million for the nine months ended September 30, 2016.

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Income from continuing operations	3,923	2,222	6,798	4,238
Add back:				
Depreciation and amortization	246	242	728	879
Interest expense, net	631	1,854	2,702	6,282
Income taxes	1,253	327	2,220	949
EBITDA	6,053	4,645	12,448	12,348
Change in fair value of derivative financial instrument	(81)	(1,122)	(87)	(996)
(Gain) loss from the translation of Canadian cash balances	77	20	70	(55)
Loss of debt extinguishment	-	-	5,223	-
Impairment of intangible assets	561	-	561	-
Share-based compensation	84	580	321	1,580
Adjusted EBITDA	6,694	4,123	18,536	12,877

Liquidity and Capital Resources

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
	\$	\$	\$	\$
Income from continuing operations	3,923	2,222	6,798	4,238
Cash provided by operating activities	7,208	4,944	12,807	12,693
Cash used in investing activities	(1)	6	7,432	(103)
Cash used in financing activities	(405)	(807)	(23,997)	(2,537)
Cash used in discontinued operations	(2,070)	(2,962)	(6,316)	(6,690)
Net change in cash	4,732	1,181	(10,074)	3,363
Impact of foreign exchange on cash	(53)	(1,366)	(70)	55
Cash, beginning of period	19,663	30,785	34,486	27,182
Cash, end of period	24,342	30,600	24,342	30,600

Cash

As at September 30, 2017, the Company had cash of \$24.3 million compared to \$34.5 million as at December 31, 2016. The decrease is primarily attributable to the prepayment on the Notes in the amount of \$22.5 million inclusive of transaction fees and penalties offset by the proceeds from the sale of the U.S. assets.

Operating Activities

Cash provided by operating activities was \$7.2 million for the three months ended September 30, 2017 compared to \$4.9 million for the three months ended September 30, 2016. The increase in cash provided by operating activities reflects a recovery of \$0.5 million of working capital compared to a \$0.5 million investment in working capital in the comparative prior period. Cash provided by operations, excluding working capital was \$6.7 million for the three months ended September 30, 2017 compared to \$5.4 million for the three months ended September 30, 2016. The increase in the working capital is directly attributable to the increase in accounts receivable from our licensing partners. Royalties earned are paid by our partners on a quarterly basis. The increase corresponds to the increase in licensing revenue during the quarter.

For the nine month ended September 30, 2017, cash provided by operating activities was \$12.8 million compared to \$12.7 million for the nine months ended September 30, 2016.

Investing Activities

Cash provided by investing activities for the three and nine months ended September 30, 2017 is primarily related to the sale of the U.S. assets. On closing the Company received \$7.6 million in cash.

Financing Activities

Cash used in financing activities was \$0.4 million for the three months ended September 30, 2017 compared to \$0.8 million for the three months ended September 30, 2016. In the current period, interest payments on the Notes were partially offset by proceeds from shares issued under the Company's share purchase plan and from the exercise of stock options.

Cash used in financing activities was \$24.0 million for the nine months ended September 30, 2017 compared to \$2.5 million for the nine months ended September 30, 2016. The increase in cash used in financing activities during the quarter related to the \$20.0 million prepayment on the Notes.

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.

As at September 30, 2017, the Company has finance lease contractual obligations on its fleet and operating leases for the Company's two office locations. The fleet leases expire between June 2020 and August 2020. The lease for the Company's Canadian premises expires at the end of December 2018 and the lease for the Company's U.S. premises expires in January 2023.

Financial Instruments

At September 30, 2017, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the Notes, and the derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the interim statements of income (loss) and comprehensive (loss) and is classified as Level 2 in the fair value hierarchy. Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their relatively short periods of maturity.

The Notes are measured at amortized cost. At September 30, 2017, the fair value of the remaining Notes is approximately \$19.7 million. The fair values are 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 and interest rate 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 and market 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 and U.S. chartered banks. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts.

The Company has concentration risk, as approximately 83.9% of total sales came from two customers and 95.0% of total accounts receivable came from one customer.

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.

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 Notes bear interest at fixed rates and as such are not subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

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, and an unlimited number of voting common shares. As at September 30, 2017, the Company had 26,689,898 common shares issued and outstanding compared to 26,292,721 at September 30, 2016. Subsequent to quarter end, 2,952 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 26,692,850 as of the date of this MD&A.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than operating leases for its office facilities.

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 September 30, 2017 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 Chief Executive Officer and 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 September 30, 2017.

Selected Quarterly Information

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)

	Sept 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue	10.9	9.9	8.1	6.4	7.8	8.5	6.9	7.5
Net income (loss) for the period	3.9	4.4	(1.6)	(0.1)	2.2	0.2	1.8	6.0
Basic income (loss) per share	0.15	0.17	(0.06)	0.00	0.08	0.01	0.07	0.24
Diluted income (loss) per share	0.15	0.17	(0.06)	0.00	0.08	0.01	0.07	0.24

Cipher Pharmaceuticals Inc.

Interim Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2017

(Unaudited)

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Financial Position

As at September 30, 2017 and December 31, 2016
(in thousands of United States dollars - unaudited)

	Note	2017	2016
		\$	\$
ASSETS			
Current assets			
Cash	3, 4	24,342	34,486
Accounts receivable		17,400	14,644
Inventory		700	1,272
Prepaid expenses and other assets	3	1,818	1,767
		44,260	52,169
Property and equipment, net	3	297	790
Intangible assets, net	3, 5	5,601	17,582
Other receivable	3	1,700	-
Deferred tax assets	9	4,644	6,864
Total assets		56,502	77,405
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	3	13,910	16,003
Provisions	3	2,100	4,769
Current portion of deferred revenue		177	176
		16,187	20,948
Deferred revenue		357	487
Senior secured notes	4	19,724	36,377
Derivative financial instrument	4	495	583
Other long term liabilities	3	697	996
Total liabilities		37,460	59,391
SHAREHOLDERS' EQUITY			
Share capital	6	17,929	16,192
Contributed surplus		4,731	6,024
Accumulated other comprehensive loss		(9,514)	(9,514)
Retained earnings		5,896	5,312
Total shareholders' equity		19,042	18,014
Total liabilities and shareholders' equity		56,502	77,405

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

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Three and nine month periods ended September 30, 2017 and 2016
(in thousands of United States dollars, except per share data - unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenues					
Licensing revenue	11	8,851	6,811	24,369	20,203
Product revenue		1,239	1,000	3,779	3,039
Net revenues		10,090	7,811	28,148	23,242
Operating expenses					
Cost of products sold		395	360	1,210	1,027
Research and development		117	74	286	460
Selling, general and administrative	7	3,326	4,069	9,329	12,189
Total operating expenses		3,838	4,503	10,825	13,676
Other expenses (income)					
Interest on senior secured notes	4	631	1,858	2,707	6,334
Change in fair value of derivative financial instrument	4	(82)	(1,122)	(88)	(996)
Interest income		-	(4)	(5)	(52)
Loss on debt extinguishment	4	-	-	5,223	-
Impairment of intangible assets	5	561	-	561	-
Foreign exchange gain (loss)		(34)	27	(93)	(907)
Total other expenses		1,076	759	8,305	4,379
Income before income taxes from continuing operations		5,176	2,549	9,018	5,187
Income taxes	9	1,253	327	2,220	949
Income and comprehensive income from continuing operations		3,923	2,222	6,798	4,238
Loss and comprehensive loss from discontinued operations	3	(1,184)	(24,010)	(6,214)	(32,091)
Income (loss) and comprehensive income (loss) for the period		2,739	(21,788)	584	(27,853)
Income from continuing operations per common share	10				
Basic		0.15	0.08	0.26	0.16
Diluted		0.15	0.08	0.25	0.16
Loss from discontinued operations per common share	10				
Basic		(0.05)	(0.89)	(0.23)	(1.22)
Diluted		(0.05)	(0.89)	(0.23)	(1.22)
Income (loss) and comprehensive income (loss) per common share	10				
Basic		0.10	(0.81)	0.03	(1.06)
Diluted		0.10	(0.81)	0.02	(1.06)

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

Cipher Pharmaceuticals Inc.

Interim Consolidated Statements of Changes in Shareholders' Equity

Nine month periods ended September 30, 2017 and 2016

(in thousands of United States dollars - unaudited)

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	
		000's	\$	\$	\$	\$	
Balance, January 1, 2017		26,313	16,192	6,024	(9,514)	5,312	18,014
Income for the period		-	-	-	-	584	584
Exercise of stock options	6	278	1,264	(724)	-	-	540
Shares issued under the share purchase plan	6	25	96	-	-	-	96
Shares issued under the RSU plan	6	73	377	(377)	-	-	-
Share-based compensation expense	6	-	-	(192)	-	-	(192)
Balance, September 30, 2017		26,689	17,929	4,731	(9,514)	5,896	19,042
Balance, January 1, 2016		26,058	14,947	4,363	(9,514)	44,461	54,257
Loss for the period		-	-	-	-	(27,853)	(27,853)
Exercise of stock options	6	116	521	(253)	-	-	268
Shares issued under the share purchase plan	6	83	395	-	-	-	395
Shares issued under the RSU plan	6	36	266	(266)	-	-	-
Share-based compensation expense	6	-	-	2,326	-	-	2,326
Balance, September 30, 2016		26,293	16,129	6,170	(9,514)	16,608	29,393

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

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Cash Flows

Nine months period ended September 30, 2017 and 2016
(in thousands of United States dollars - unaudited)

	Note	2017	2016
		\$	\$
Operating activities			
Income for the period from continuing operations		6,798	4,238
Items not affecting cash:			
Depreciation of property and equipment		97	80
Amortization of intangible assets		631	799
Impairment of intangible assets	5	561	-
Share-based compensation		321	1,580
Foreign exchange (gain) loss on cash		70	(55)
Change in fair value of derivative		(88)	(996)
Loss on debt extinguishment	4	5,223	-
Interest on senior secured notes	4	2,707	6,334
Deferred income taxes		2,220	949
Changes in non-cash operating items:			
Accounts receivable		(5,198)	(503)
Inventory		75	(524)
Prepaid expenses and other assets		(35)	315
Accounts payable and accrued liabilities		(446)	832
Deferred revenue		(129)	(356)
Net cash provided by operating activities		12,807	12,693
Investing activities			
Purchase of property and equipment		(39)	(29)
Acquisition of intangible assets		-	(74)
Milestone payments related to intangible assets		(148)	-
Net cash received from disposal of assets	3	7,619	-
Net cash provided by (used in) investing activities		7,432	(103)
Financing activities			
Interest payments		(2,083)	(3,121)
Repayment of senior secured notes	4	(20,000)	-
Financing costs	4	(2,500)	-
Payment of finance lease liability		(35)	(20)
Proceeds from shares issued under the share purchase plan		81	336
Proceeds from exercise of stock options		540	268
Net cash used in financing activities		(23,997)	(2,537)
Cash used in discontinued operations	3	(6,316)	(6,690)
(Decrease) increase in cash		(10,074)	3,363
Impact of foreign exchange on cash		(70)	55
Cash, beginning of period		34,486	27,182
Cash, end of period		24,342	30,600

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, 2017
(in thousands of United States dollars, except per share amounts)

1. NATURE OF OPERATIONS

Cipher Pharmaceuticals Inc. ("Cipher") and its subsidiaries (together the "Company") is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late stage products. The Company acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada and the United States ("U.S.") or indirectly through partners in the U.S., Canada and South 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 Argentia Road, Mississauga, Ontario.

On May 1, 2017, the Company sold its U.S. assets related to Innocutis Holdings LLC and no longer directly markets in the U.S.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS as issued by the IASB and are available on SEDAR at www.sedar.com. The Board of Directors approved these interim condensed consolidated financial statements on November 2, 2017.

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, selling and marketing have been combined with general and administrative (G&A), which is now reflected in selling, general and administrative ("SG&A"). In addition, foreign exchange gains have been reclassified from SG&A (formerly G&A) expenses to other expenses (income) and amortization of intangible assets has been reclassified to SG&A in order to better present the consolidated statements of income (loss) and comprehensive income (loss) by function.

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 (loss) and comprehensive income (loss) for the current and comparative periods. Refer to Note 3 Discontinued Operations.

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, 2017, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, the Senior Secured Notes (the "Notes") and the derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statements of income (loss) and comprehensive income (loss) 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.

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

The Notes are measured at amortized cost. At September 30, 2017, the fair value of the remaining Notes approximates its carrying value. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

Accounting standards issued but not yet adopted

IFRS 15, Revenue from Contracts with Customers: This standard replaces International Accounting Standards ("IAS") 11 *Construction Contracts*, IAS 18, *Revenue* and IFRIC 13, *Customer Loyalty Programmes* and was issued in May 2014. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is for annual reporting periods beginning on or after January 1, 2018. The Company has determined the impact of adopting this standard on its licensing revenue as certain milestone payments which were previously deferred and amortized over a relevant period, will be recognized at the point-in-time of transfer of control to the customer. The Company in the process of quantifying the impact to the consolidated financial statements. Additionally, the Company is still assessing whether it will continue to be considered an agent in its relationship with Galephar under IFRS 15. A change in this determination, if required will result in the Company reporting its revenue on a gross basis rather than net. The Company will adopt this accounting standard on January 1, 2018, using the full retrospective approach. The adoption of IFRS 15 has no material impact on the Company's product revenue.

IFRS 9, Financial Instruments: The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, however is available for early adoption. The Company is in the process of evaluating the impact on the consolidated financial statements.

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 determined that all its leases except for its low value leases will be recorded on the consolidated statements of financial position upon adoption.

IFRS 2, Share-based Payment: In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. The Company does not expect these amendments to have a material impact on the consolidated financial statements upon adoption.

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 is 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 \$750 if certain predefined conditions are achieved. The hold back of \$1,700 is classified as a non-current asset in the interim consolidated statements of financial position. As at September 30, 2017, the predefined conditions which would trigger the recognition of the regulatory milestone of \$750 were not achieved.

During the quarter, the working capital adjustments were finalized. The following table summarizes the assets and liabilities disposed of and the calculation of the gain on sale after these adjustments:

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

	\$
Purchase price	13,600
Less: contractual working capital adjustment	(2,801)
Cash consideration	10,799
Working capital, net	1,019
Property and equipment, net	(100)
Intangible assets, net	(10,385)
Transaction costs	(1,000)
Gain on disposal	333

The following table summarizes the balances retained by the Company as at September 30, 2017, which are included in the interim consolidated statements of financial position:

	\$
Accounts payable and accrued liabilities	1,561
Provisions	2,100
Other long term liabilities	616
Total	4,277

Accounts payable and accrued liabilities and other long term liabilities includes provisions for onerous contracts, and amounts due to former customers and vendors. Provisions reflects product returns that were retained by the Company. Prepaids and other assets includes a working capital adjustment of \$1,047 to reflect a reduction in liabilities assumed on day of closing, which is outstanding from the buyer as at September 30, 2017. During the quarter, the Company received \$433, which was attributable to the working capital adjustment.

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

	Three months ended Sept 30, 2017	Three months ended Sept 30, 2016	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
	\$	\$	\$	\$
Net revenues	(584)	1,455	2,347	6,816
Operating expenses	568	25,465	8,894	38,907
Loss before gain on disposal	1,152	24,010	6,547	32,091
Loss (gain) on disposal	32	-	(333)	-
Loss before income taxes	1,184	24,010	6,214	32,091
Income taxes	-	-	-	-
Loss and comprehensive loss from discontinued operations	1,184	24,010	6,214	32,091

Included in the three and nine months ending September 30, 2016 are impairment charges relating to goodwill and intangible assets in the amount of \$2,277 and \$17,285, respectively.

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

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

	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
	\$	\$
Net cash flows attributable to:		
Operating activities	(6,308)	(6,170)
Investing activities	(8)	(520)
Cash used in discontinued operations	(6,316)	(6,690)

4. SENIOR SECURED NOTES

In the first quarter, the Company entered into its sixth amendment to the Securities Purchase Agreement (the "Amendment") with its lenders to amend the terms of the 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.

The Notes bear interest at a fixed rate of 10.25% per annum, payable quarterly in arrears on the last day of each quarter, and will mature on April 13, 2020, unless repaid earlier. Upon repayment of the principal in part or in full, a 5% borrowing fee is assessed and payable. In addition, voluntary prepayment of the notes, in part or in full prior to certain anniversary dates, will be subject to a prepayment penalty. The Notes are secured by all present and future assets of the Company, except for the U.S. segment and have certain restrictive covenants, including quarterly consolidated net revenue, minimum cash balance and consolidated leverage ratio. The minimum cash balance that must be maintained is \$6,000. The Company is in compliance with these covenants as at September 30, 2017.

The following is the continuity of the Notes from January 1, 2016 to September 30, 2017:

	\$
Balance, January 1, 2016	34,578
Interest expense	4,168
Interest paid	(4,168)
Accretion expense	1,799
Balance, December 31, 2016	36,377
Interest expense	1,024
Interest paid	(1,024)
Accretion expense	400
Carrying value of Notes before extinguishment	36,777
Loss on extinguishment	5,223
Balance, March 31, 2017	42,000
Prepayment of senior secured notes	(22,500)
Interest expense	541
Interest paid	(541)
Accretion expense	111
Balance, June 30, 2017	19,611
Interest expense	518
Interest paid	(518)
Accretion expense	113
Balance, September 30, 2017	19,724

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

Derivative financial instrument

Under the terms of the Original SPA, the Company issued 600,000 common share purchase warrants to the lender 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 (loss) and comprehensive income (loss). 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), which 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 December 31, 2016 and September 30, 2017 were \$583 and \$495, respectively.

The variables used to compute the fair value are as follows:

	<u>Dec 31, 2016</u>	<u>Sept 30, 2017</u>
Share price	\$3.65	\$3.81
Expected life	5.2 years	4.5 years
Volatility	56.00%	54.00%

5. IMPAIRMENT OF INTANGIBLE ASSETS

During the third quarter of 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 notice of termination to the seller. Accordingly, the Company recorded an impairment charge of \$561 in other expenses in the interim consolidated statements of income (loss) and comprehensive income (loss).

6. 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, 2016.

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, 2017, 7,340 shares were issued under the ESPP (three months ended September 30, 2016 - 24,456). Included in share-based compensation expense is \$5 (three months ended September 30, 2016 - \$17), which is the discount on the shares issued during the period. During the nine months ended September 30, 2017, 25,580 shares were issued under the ESPP (nine months ended September 30, 2016 - 82,157). Included in share-based compensation expense is \$15 (nine months ended September 30, 2016 - \$59).

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2016 to September 30, 2017:

	Number of options (in thousands)	Weighted average exercise price \$
Balance, January 1, 2016	1,414	6.39
Granted during the year	688	4.94
Exercised during the year	(116)	2.49
Forfeited during the year	(429)	5.70
Balance, December 31, 2016	1,557	6.39
Granted during the period	536	5.09
Exercised during the period	(366)	3.05
Forfeited/expired during the period	(816)	8.03
Balance, September 30, 2017	911	6.84

As at September 30, 2017, 406,415 options were fully vested and exercisable (September 30, 2016 - 763,287).

During the quarter, the Company granted 99,372 stock options under the stock option plan. 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. Forfeitures are accounted for as necessary. There is no expected dividend. The exercise price and Black Scholes assumptions are as follows:

Grant date	Number granted	Exercise price	Black Scholes value	Risk-free interest rate	Expected life	Expected volatility
May 15, 2017	436,811	CDN\$5.06	CDN\$2.17	1.18%	4.9 years	49.6%
August 15, 2017	85,898	CDN\$5.24	CDN\$2.28	1.50%	4.9 years	49.5%
August 28, 2017	13,474	CDN\$5.00	CDN\$2.14	1.50%	4.9 years	48.6%

Total compensation cost for these stock options is estimated to be \$179 which will be recognized on a graded basis over the vesting period of the stock options. The total expense for stock options for the three months ended September 30, 2017 was \$37 (three months ended September 30, 2016 - \$554). The total expense for stock options for the nine month ended September 30, 2017 was a recovery of \$80 (nine months ended September 30, 2016 - \$1,609).

The following information relates to stock options that were outstanding as at September 30, 2017:

Range of exercise prices CDN\$	Number of options (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price CDN\$
1.05 - 4.60	39	4.1	1.82
4.61 - 6.20	495	7.2	5.26
6.21 - 13.88	377	7.3	9.43
	911	7.1	6.84

During the quarter, 64,000 stock options were exercised in exchange for 64,000 common shares (three months ended September 30, 2016 - 68,966 stock options in exchange for 68,966 common shares). During the nine months ended September 30, 2017, 365,627 stock options were exercised for 278,499 common shares (nine months ended September 30, 2016 - 115,966 stock options exchanged for 115,966 common shares). The Company's stock option plan 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 cash consideration received by the Company for stock option exercises during the three months ended September 30, 2017 was \$103 (three months ended September 30, 2016 - \$153). The total cash consideration received by the Company for stock option exercised for the nine months ended September 30, 2017 was \$540 (nine months ended September 30, 2016 - \$268).

Cipher Pharmaceuticals Inc.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2017
(in thousands of United States dollars, except per share amounts)

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

On May 13, 2015, the Company adopted a RSU and PSU plan. RSU's and PSU's are notional share units exchangeable for common shares of the Company. RSU's are granted to all employees and directors of the Company and PSU's are granted to certain executives. RSU's granted to employees vest annually over a three year and RSU's granted to directors' vest over a one year period. PSU's 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.

On September 19, 2017, 63,282 PSUs were granted to key management personnel that vest October 2020 upon the achievement of certain market based performance goals, however if not achieved the performance date extends to October 2021. If certain targets are achieved, up to 5 times the number of PSUs granted will be awarded. Each PSU can be exchanged for an equal number of common shares. The determination of the number of shares that will ultimately vest was based on weighted average probabilities.

A summary of the RSU's and PSU's granted and outstanding as at September 30, 2017 is as follows:

	RSU's	PSU's
	Number of units	Number of units
	000's	000's
Balance, January 1, 2017	202	78
Granted during the period	130	63
Vested during the period	(73)	-
Forfeited/cancelled during the period	(152)	(62)
Balance, September 30, 2017	107	79

The total expense for RSU's and PSU's for the three months ended September 30, 2017 was \$42 (three months ended September 30, 2016 - \$271). The total expense for the nine months ended September 30, 2017 was a recovery of \$112 (nine months ended September 30, 2016 - \$717).

7. EXPENSES BY NATURE

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

Employee salaries and benefits expenses

	Three months ended	Three months ended	Nine months ended	Nine months ended
	Sept 30, 2017	Sept 30, 2016	Sept 30, 2017	Sept 30, 2016
	\$	\$	\$	\$
Salaries, bonuses and benefits	1,136	1,058	2,814	3,208
Share-based compensation	84	581	321	1,580
Termination benefits	241	-	801	93
Total employee costs	1,461	1,639	3,936	4,881

For the three and nine months ended September 30, 2017 and 2016, all employee salaries and benefits are recorded in selling, general and administrative on the interim consolidated statements of income (loss) and comprehensive income (loss).

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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 Sept 30, 2017	Three months ended Sept 30, 2016	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
	\$	\$	\$	\$
Salaries, bonuses and benefits	374	325	709	940
Share-based compensation	159	421	260	1,144
Directors fees	57	152	187	298
Termination benefits	24	-	289	-
	614	898	1,445	2,382

9. 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.

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, 2017	Three months ended Sept 30, 2016	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
	\$	\$	\$	\$
Income before income taxes from continuing operations	5,176	2,549	9,018	5,187
Tax provision at the statutory income tax rate of 26.5%	1,372	675	2,390	1,375
Permanent differences	134	(398)	521	(15)
Effect of currency translation adjustment	(253)	50	(691)	(411)
Income tax expense	1,253	327	2,220	949

The movement in the deferred income tax asset for the nine months ended September 30, 2017 and 2016 is as follows:

	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
	\$	\$
As at January 1	6,864	8,356
Change in deferred tax as asset	(2,220)	(949)
As at September 30	4,644	7,407

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10. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the three months ended September 30, 2017 was 26,656,840 (three months ended September 30, 2016 - 26,799,312). The weighted average number of shares outstanding for the nine months ended September 30, 2017 was 26,527,383 (for the nine months ended September 30, 2016 - 26,160,849).

Diluted earnings (loss) per share is calculated using the weighted average number of shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the three months ended September 30, 2017 was 26,826,260 (three months ended September 30, 2016 - 26,495,705). The diluted weighted average number of shares outstanding for the nine months ended September 30, 2017 was 26,896,636 (for the nine months ended September 30, 2016 - 26,682,408).

11. 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. 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. 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 and CIP-TRAMADOL ER in Canada, the U.S. and Central and South America.

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 and nine months ended September 30, 2017, the Company paid royalties of \$1,383 (three months ended September 30, 2016 - \$5,644) and \$3,765 (nine months ended September 30, 2016 - \$13,883), respectively to Galephar. As at September 30, 2017, the amount in accounts payable and accrued liabilities owed to Galephar were \$2,683 (December 31, 2016 - \$5,972). 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.

CORPORATE DIRECTORY

DIRECTORS

Mark Beaudet

Chair

Arthur Deboeck

Director

Christian Godin

Director

Dr. John Mull

Director

Robert Tessarolo

Director

Harold Wolkin

Director

OFFICERS

Robert Tessarolo

President and Chief Executive Officer

Stephen Lemieux

Chief Financial Officer

SHAREHOLDER INFORMATION

Stock Exchange Listing

The Company's common shares are listed on the Toronto Stock Exchange under the symbol "CPH".

Shareholder Inquiries

Inquiries regarding change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent.

Transfer Agent

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Auditors

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