MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

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 six months ended June 30, 2018. This document should be read in conjunction with the three and six months ended June 30, 2018 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, 2017, is available on SEDAR at www.sedar.com.

The discussion and analysis within this Management Discussion and Analysis ("MD&A") are as at August 9, 2018. 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 and statements relating to Cipher's acquisition of Cardiome Pharma Corp. ("Cardiome") pursuant to which the Company acquired the Canadian business portfolio of Cardiome, including statements in respect of the anticipated strategic and/or financial benefits of the acquisition and the anticipated regulatory approvals of products and the timing thereof. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, 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, regulatory submissions and regulatory approvals; reliance on third parties to manufacture our products and events outside of our control that could adversely impact the ability of our manufacturing partners to supply products to meet our demands; we may be subject to future product liability claims; unexpected product safety or efficacy concerns may arise; we generate license revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; 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; our debt obligations will have priority over the Common Shares in the event of a liquidation, dissolution or winding up; and risks associated with the arrangement with Cardiome, including, among others, the failure to satisfy closing conditions and the absence of material adverse changes or other events which may give the parties a basis on which to terminate the arrangement agreement

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, 2017, 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 Latin 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. 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 Cipher sees 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

2018

TRULANCE® ACQUISITION

On February 27, 2018, the Company acquired the exclusive Canadian rights to develop, market, distribute and sell TRULANCE (plecanatide) from Synergy Pharmaceuticals Inc. ("Synergy"). TRULANCE is a once-daily tablet approved by the U.S. Food and Drug Administration ("FDA") for the treatment of adults with chronic idiopathic constipation ("CIC") and irritable bowel syndrome with constipation ("IBS-C"). The Company plans on filing a New Drug Submission ("NDS") with Health Canada in the second half of 2018. Under the terms of the licensing agreement, the Company paid an upfront payment of $5.0 million. The transaction also includes a regulatory milestone payment of $0.8 million and royalties on net product sales in Canada.

According to IMS Health ("IMS"), the total Canadian laxative and antispasmodic market (prescription and over-the-counter) is estimated at over CDN $211 million for the 12 months ended March 2018, of which the prescription market size is estimated at CDN $18.8 million.

A-101 ACQUISITION

On April 5, 2018, the Company acquired the exclusive Canadian rights from Aclaris Therapeutics, Inc. ("Aclaris") to distribute and commercialize A-101. A-101 is an FDA-approved topical product indicated for the treatment of raised seborrheic keratoses ("SKs"), which are commonly occurring non-cancerous skin growths that affect more than nine million Canadian adults and can be an aesthetic skin concern. A-101 was approved by the FDA in December 2017 and is marketed by Aclaris in the U.S. under the tradename Eskata™. A-101 is a proprietary, high-concentration hydrogen peroxide-based topical solution designed for in-office application by a healthcare provider. It is a targeted treatment applied directly to the raised SK using a pen-like applicator. The most commonly used treatment for SKs are surgical procedures such as cryosurgery, which can cause discomfort, cosmetic imperfections, and require wound management. Under the terms of the licensing agreement, the Company made an upfront payment of $1.0 million, is required to make payments of up to $2.8 million upon the achievement of certain regulatory and commercial milestone payments events and make royalty payments based on net product sales in Canada. The Company plans on filing a NDS with Health Canada in the second half of 2018.

CARDIOME TRANSACTION AND CREDIT FACILTY AMENDMENT

On May 15, 2018, the Company completed its acquisition of all of the outstanding shares of Cardiome, following a restructuring of Cardiome pursuant to a statutory plan of arrangement under the Canada Business Corporations Act. Pursuant to the arrangement, former Cardiome shareholders received common shares, on a one-for-one basis, of a newly created Canadian entity named Correvio Pharma Corp. ("Correvio"). The Company subsequently acquired all of the outstanding common shares of Cardiome, which were 100% owned by Correvio and held only the Canadian business portfolio, for cash consideration of CDN$25.5 million. The total transaction costs incurred for the acquisition were $0.6 million. Cipher financed this acquisition with a combination of cash and an amendment to its current credit facility to draw an additional $5 million from the accordion. Other than an increase in the Company's quarterly principal repayment amounts over the remainder of the term from $1.7 million to $2.0 million, there were no material changes to the terms of the credit facility.

The Canadian business portfolio acquired by Cipher included commercial and pipeline hospital products administered in the acute care setting, including:

- Brinavess® (vernakalant IV), for the rapid conversion of recent onset atrial fibrillation to sinus rhythm;
- Aggrastat® (tirofiban hydrochloride), for the reduction of thrombotic cardiovascular events in patients with acute coronary syndrome;
- Xydalba™ (dalbavancin hydrochloride), the first and only 30-minute, one-dose treatment option for the treatment of acute bacterial skin and skin structure infections; and
- Trevyent® a drug device combination that delivers treprostinil, the world's leading treatment for pulmonary arterial hypertension.

Brinavess and Aggrastat are currently on the market in Canada. Xydalba, which is approved and marketed by Allergan in the U.S. under the trade name Dalvance, may receive a regulatory approval decision in Canada as early as the end of 2018.

Under the terms of the arrangement agreement, Cipher will also have a right of first refusal, for a limited period following closing, to license from Correvio the Canadian rights of any pharmaceutical product that it (or its affiliates) licenses in the future for additional consideration to Correvio.

2017

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 or "Innocutis"). 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 U.S. APA also included a potential regulatory milestone of up to $0.75 million payable to the Company if certain predefined conditions were achieved and included 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. In the fourth quarter of 2017, the regulatory milestone was achieved, and the Company received an additional $0.74 million, net of administrative costs. The total cash consideration received to date is $9.3 million including the working capital adjustment in the third quarter of 2017.

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

In April 2015, Cipher closed on a private offering of up to $100 million in aggregate principal amount of Senior Secured Notes (the "Notes") due in 2020, provided by investment funds managed by Athyrium Capital Management (together, "Athyrium") pursuant to the original securities purchase agreement (the "Original SPA"). The Company received an initial drawdown of $40.0 million, which was used to fund the majority of the purchase price for Innocutis. The remaining balance of the Notes ($60.0 million) was intended to finance future acquisitions and was available to Cipher up until June 30, 2016 at which time the balance of the Notes expired. The Notes bore interest at a fixed rate of 10.25% per annum, payable quarterly in arrears on the last day of each quarter, and were set to mature in five years, unless repurchased earlier. The Notes were interest-only and were secured by assets of the Company and its subsidiaries, subject to certain exceptions. Upon repayment of the principal in part or in full, a 5% borrowing fee was assessable and payable. The Company had the option to repay the Notes in part or in full prior to the maturity date subject to a prepayment premium that declined over time. If the Company prepaid the Notes from the proceeds received from the disposition of assets, a prepayment premium would be applied. The Notes had certain restrictive covenants, including those related to quarterly consolidated net revenue, minimum cash balance and consolidated leverage ratio. Under the terms of a fifth amendment to the Original SPA in December 2016, the minimum sales covenant for the fourth quarter of fiscal year 2016 was decreased to $8.0 million from $10.0 million and the Company agreed to prepay its debt obligations using the proceeds received from the disposition of assets.

On March 31, 2017, the Company entered into its sixth amendment to the Original SPA (the "Note Amendment") with Athyrium to amend the terms of the Notes under the Original SPA. In connection with the Note Amendment, the Company agreed to prepay $20.0 million of the outstanding Notes balance on April 5, 2017. The Note 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, which have been recognized as part of the loss on extinguishment. In consideration for the prepayment, Athyrium 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. On November 3, 2017, the Company repaid the Notes in full including a prepayment penalty of $1.0 million and a borrowing fee of $1.0 million.

CREDIT FACILITY

On November 3, 2017, the Company entered into a credit agreement, with a Canadian lender to extinguish its existing Notes and replaced it with a credit facility. In connection with the credit agreement, the Company used the proceeds of $20.0 million to fully extinguish the remaining balance of the Notes. The credit facility has a three year term, carrying an interest rate of LIBOR plus an applicable margin ranging from 1.5% - 2.5% based on the total debt to EBITDA ratio, as defined in the credit agreement. Principal and interest payments are payable quarterly in arrears. The credit facility also carries an accordion feature that allows for an additional US$10.0 million of capacity, subject to customary terms and conditions. The Company is subject to certain financial and non-financial covenants, including total debt to EBITDA ratio, minimum fixed charge coverage ratio and minimum shareholders' equity as defined in the credit agreement. The credit facility is secured by the assets of the Company. The total transaction costs incurred were $0.2 million.

On May 15, 2018, the Company amended the credit agreement to draw upon $5.0 million from the accordion to fund the Cardiome acquisition. As part of the amendment, the accordion was reset to $10.0 million. Additionally, the scheduled quarterly payments increased from $1.7 million to $2.0 million, however both the principal and interest payments due on June 30, 2018 were waived and is payable upon maturity. There was no corresponding change in the interest rate terms or term of the credit facility.

Significant Partnerships

GALEPHAR

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

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

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

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

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

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.

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. The term of the agreement is 12 years from the date of launch, with a two year automatic renewal.

In May 2017, Cipher received a Notice of Compliance from Health Canada, approving the sale of OZANEX. The Company made a CDN $0.2 million milestone payment to Ferrer upon obtaining regulatory approval in Canada. All milestones payable under this agreement have been satisfied. Cipher is not responsible for any future development costs, should any be required.

In January 2018, the Company launched OZANEX in Canada. The total Canadian impetigo market size in sales is estimated to be over CDN $38.0 million according to IMS.

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.

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 Biochemique 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.

AGGRASTAT®

Aggrastat contains tirofiban hydrochloride, which is a reversible GP IIb/IIIa inhibitor (an intravenous anti-platelet drug) for use in patients with Acute Coronary Syndrome. Aggrastat is used to help assist the blood flow to the heart and to prevent chest pain and/or heart attacks (both ST-segment elevation myocardial infarction ("STEMI"), and non-ST-elevation acute myocardial infarction("NSTE-ACS")). It works by preventing platelets, cells found in the blood, from forming into blood clots within the coronary arteries and obstructing blood flow to the heart muscle which can result in a heart attack. The medicine may also be used in patients whose heart vessels are dilated with a balloon (percutaneous coronary intervention), a procedure used to open up three blocked or obstructed arteries in the heart in order to improve the blood flow to the heart muscle (myocardium) with or without the placement of a coronary stent. Aggrastat is administered intravenously and has been on the market for many years. In July 2017, Health Canada approved a high dose bolus regimen for Aggrastat.

The Company acquired the exclusive Canadian rights to Aggrastat as part of the acquisition of Cardiome. Correvio supplies finished product to the Company.

BRINAVESS®

Brinavess was approved by Health Canada in March 2017 for the rapid conversion of recent onset atrial fibriallation ("AF") to sinus rhythm in adults, for non-surgery patients with AF of seven days or less and for use in post-cardiac surgery patients with AF of three days or less. The approval from Health Canada included a requirement that former Cardiome conduct a post marketing study, which the Company will now satisfy. The proposed study design is a retrospective observational registry conducted in patients receiving Brinavess in Canada. The study will characterize prescription practices and the profile of patients receiving Brinavess and will assess the safety of Brinavess in the Canadian real world setting.

The Company acquired the exclusive Canadian rights to Brinavess as part of the acquisition of Cardiome and plans to launch Brinavess in the fourth quarter of 2018. Correvio supplies finished product to the Company.

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, the U.S. isotretinoin market was over $710 million in 2017.

Absorica is currently protected by five issued patents which are Orange Book listed and expire in March 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 FDA for a generic version of Absorica (isotretinoin capsules). A Paragraph IV Certification Notice is delivered when the sponsor company of the ANDA believes that it is not infringing the patent, and/or the patent is not valid. In response to Actavis' ANDA filing, the Company, Ranbaxy and Galephar file a patent infringement lawsuit against Actavis in October 2013. 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.

On July 30, 2018, the Company amended its distribution and supply agreement (the "Amendment") with Sun Pharmaceutical Industries, Inc. ("Sun") (previously Ranbaxy) for Absorica. The Amendment provides Sun with the ability to launch new isotretinoin products prior to the expiration of the agreement in November 2022. The Company will receive a royalty until December 2024 based on U.S. net sales from Sun's isotretinoin product portfolio. In addition, the Absorica New Drug Application (NDA) will be returned to the Company on expiry of the agreement in November 2022.

Rest of World

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

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

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. was approximately $6 billion in 2017 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 $468 million in 2017 compared to $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 2017 for extended release formulations of tramadol exceeded $48 million, which represents approximately 49% 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 informed Cipher that it has taken corrective actions and commenced a corrective action communication to healthcare professionals. The FDA has informed Cipher that all issues raised in the warning letter have been addressed.

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$25.0 million in 2017.

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.

TRULANCE®

On February 27, 2018, the Company acquired the exclusive Canadian rights to develop, market, distribute and sell TRULANCE (plecanatide) from Synergy. TRULANCE is a once-daily tablet approved by the FDA for the treatment of adults with CIC and IBS-C. The Company plans on filing a NDS with Health Canada in the second half of 2018. Under the terms of the licensing agreement, the Company paid an upfront payment of $5.0 million. The transaction also includes a regulatory milestone payment of $0.8 million and royalties on net product sales in Canada.

A-101

On April 5, 2018, the Company acquired the exclusive Canadian rights from Aclaris to distribute and commercialize A-101. A-101 is an FDA-approved topical product indicated for the treatment of raised SKs, which are commonly occurring non-cancerous skin growths that affect more than 9 million Canadian adults and can be an aesthetic skin concern. A-101 was approved by the FDA in December 2017 and is marketed by Aclaris in the U.S. under the tradename Eskata™. A-101 is a proprietary, high-concentration hydrogen peroxide-based topical solution designed for in-office application by a healthcare provider. It is a targeted treatment applied directly to the raised SK using a pen-like applicator. The most commonly used treatment for SKs are surgical procedures such as cryosurgery, which can cause discomfort, cosmetic imperfections, and require wound management. Under the terms of the licensing agreement, Aclaris received an upfront payment of $1.0 million and, upon achievement of certain milestone events, additional regulatory and commercial milestone payments of up to $2.8 million are applicable, as well as royalties from net product sales in Canada.

XYDALBA™

On March 22, 2018 Health Canada accepted the NDS for review of Xydalba (dalbavancin hydrochloride) and granted priority review status to the application. The Company expects to receive a decision for regulatory approval during the third quarter of 2018.

Xydalba for infusion is a second generation, semi-synthetic lipoglycopeptide, which consists of a lipophilic side-chain added to an enhanced glycopeptide backbone. Xydalba is the first and only 30-minute, one-dose treatment option for acute bacterial skin and skin structure infections (ABSSSI) that delivers a full course of IV therapy. Xydalba can be administered as either one 1500 mg dose or as a two-dose regimen of 1000 mg followed one week later by 500 mg, each administered over 30 minutes. Xydalba demonstrates bactericidal activity in vitro against a range of Gram-positive bacteria, such as Staphylococcus aureus (including methicillin-resistant, also known as MRSA, strains) and Streptococcus pyogenes, as well as certain other Streptococcal species.

The Company acquired a licence for Canadian marketing rights to Xydalba from the acquisition of Cardiome. The license is for a term of 10 years from commercial launch with a one time renewal option of five years. The license includes a royalty on net sales and milestones. Correvio will supply finished product to the Company.

TREVYENT®

Trevyent is a development stage drug/device combination product that combines SteadyMed Ltd's ("SteadyMed") PatchPump technology with treprostinil, a vasodilatory prostacyclin analogue to treat pulmonary arterial hypertension ("PAH"). PatchPump is a proprietary, disposable, parenteral drug administration platform that is prefilled and preprogrammed at the site of manufacture. PAH is a type of high blood pressure that occurs in the right side of the heart and in the arteries that supply blood to the lungs. PAH worsens over time and is life-threatening because the pressure in a patient's pulmonary arteries rises to dangerously high levels, putting a strain on the heart. There is no cure for PAH, but several medications are available to treat symptoms, such as Remodulin (treprostinil sodium), the market-leading prostacyclin PAH therapy.

In April 2017, SteadyMed completed a successful clinical study of Trevyent. The study enrolled 60 healthy adult volunteers in an in-clinic setting designed to examine the performance of the PatchPump used by Trevyent. The goals of the study were to evaluate the safety and performance functions of the PatchPump delivery system as well as the tolerability of the on-body application of the 6 products. According to SteadyMed, the results indicated that the PatchPump devices performed as intended in all categories of evaluation, including dose accuracy and precision. In July 2017, SteadyMed submitted an NDA to the FDA for Trevyent in the United States. On August 31, 2017, SteadyMed announced that they received a Refusal to File ("RTF") letter from the FDA relating to the NDA. On September 28, 2017, SteadyMed announced that they had submitted a Type A Meeting Request and Briefing Document to the FDA in response to the RTF. On December 8, 2017, SteadyMed announced that they had received final minutes from the FDA on the work necessary to resubmit its NDA. SteadyMed expects the NDA re-submission to occur before the end of 2018.

Cipher acquired a licence for Canadian marketing rights to Trevyent from the acquisition of Cardiome. The license is for a term of 10 years from commercial launch. The license includes a royalty on net sales and milestones. Correvio will supply finished product to Cipher.

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 is screening patients for the psoriasis phase III program. 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.

DTR-001

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.

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.

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: Dermadexin, 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 both the U.S. and 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.

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.

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 has decided not to continue to actively pursue partners or to continue to support the related IP for Dermadexin and Pruridexin. The Company recorded an impairment charge of $1.8 million in the first quarter of 2018.

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 flows for the previously reported U.S. segment are presented as discontinued operations, separate from the Company's continuing operations which is comprised of the Canadian segment. 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 the 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 income (loss) from discontinued operations included in the consolidated statement of income (loss) and comprehensive income (loss) was income of $0.2 million and a negligible loss for the three and six months ended June 30, 2018, respectively. The loss from discontinued operations included in the consolidated statement of income (loss) and comprehensive income (loss) was $3.3 million and $5.0 million for the three and six months ended June 30, 2017, respectively.

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

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
		Restated		Restated
Net revenues	**7.0**	9.9	**11.5**	18.0
Total operating expenses	**4.1**	3.5	**9.9**	7.0
Total other expenses (income)	**-**	0.7	**(0.1)**	7.2
Income for the period from continuing operations	**1.9**	4.4	**1.0**	2.8
Income (loss) for the period from discontinued operations	**0.2**	(3.3)	**(0.0)**	(5.0)
Income from continuing operations per share:				
Basic and diluted earnings	**0.07**	0.16	**0.04**	0.11
Income (loss) from discontinued operations per share:				
Basic and diluted earnings (loss)	**0.01**	(0.12)	**(0.00)**	(0.19)
Total assets from continuing operations	**61.0**	54.6	**61.0**	54.6
Total non-current liabilities from continuing operations	**13.5**	21.4	**13.6**	21.4

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

- in Q2 2018, the Company incurred additional costs of $0.4 million relating to the Cardiome acquisition reported in operating expenses;
- in Q1 2018, the Company recorded an intangible asset impairment charge of $1.8 million in operating expenses; and
- in Q1 2018, the Company incurred costs of $0.4 million relating to its four transactions reported in operating expenses.

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

Review of Operating Results

REVENUE

The Company adopted IFRS 15, *Revenue from Contracts with Customers* on January 1, 2018 using the full retrospective approach, resulting in a restatement of the 2017 comparative period for licensing revenue.

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
		Restated		Restated
Licensing revenue	**5,241**	8,582	**8,001**	15,432
Product revenue	**1,716**	1,288	**3,529**	2,540
Net revenues	**6,957**	9,870	**11,530**	17,972

Total net revenue decreased by $2.9 million or 29% to $7.0 million for the three months ended June 30, 2018 compared to $9.9 million for the three months ended June 30, 2017. Total net revenue decreased by $6.4 million or 36% to $11.5 million for the six months ended June 30, 2018 compared to $18.0 million for the six months ended June 30, 2017.

Licensing Revenue

Licensing revenue decreased by $3.3 million or 39% to $5.2 million for the three months ended June 30, 2018 compared to $8.6 million for the three months ended June 30, 2017.

Licensing revenue from Absorica in the U.S. was $4.5 million for the three months ended June 30, 2018, a decrease of $3.0 million or 40% compared to $7.5 million for the three months ended June 30, 2017. The decrease in licensing revenue from Absorica is attributable to a promotional campaign that our partner implemented from March 2017 until November 2017. At the conclusion of the program, market share and prescriptions for Absorica decreased as expected. Absorica's market share, which peaked at 22% during the campaign, ended June 2018 at approximately 10%.

Licensing revenue from Lipofen and the authorized generic version of Lipofen was $0.5 million for the three months ended June 30, 2018, a decrease of $0.3 million compared to revenue of $0.8 million for the three months ended June 30, 2017. The market for Lipofen is declining.

Licensing revenue from the extended-release tramadol product (ConZip in the U.S. and Durela in Canada) was $0.2 million for the three months ended June 30, 2018, a decrease of $0.1 million compared to revenue of $0.3 million for the three months ended June 30, 2017.

Licensing revenue decreased by $7.4 million or 48% to $8.0 million for the six months ended June 30, 2018 compared to $15.4 million for the six months ended June 30, 2017.

Licensing revenue from Absorica in the U.S. was $6.7 million for the six months ended June 30, 2018, a decrease of $6.3 million or 49% compared to $13.0 million for the six months ended June 30, 2017. Licensing revenue from Lipofen and the authorised generic version of Lipofen was $1.0 million for the six months ended June 30, 2018, compared to $2.0 million for the six months ended June 30, 2017. Licensing revenue from the extended-release tramadol product (ConZip in the U.S. and Durela in Canada) was $0.3 million for the six months ended June 30, 2018, a decrease of $0.1 million compared to revenue of $0.4 million for the six months ended June 30, 2017.

Product Revenue

Product revenue increased by $0.4 million or 33% to $1.7 million for the three months ended June 30, 2018 compared to $1.3 million for the three months ended June 30, 2017.

Product revenue from Epuris increased to $1.5 million for the three months ended June 30, 2018 compared to $1.1 million for the three months ended June 30, 2017. According to IMS, the Canadian market for isotretinoin was CDN$18.9 million in 2017. Epuris had a prescription market share of over 33% in Canada for the three months ended June 30, 2018 compared to 28% for the three months ended June 30, 2017.

Product revenue increased by $1.0 million or 39% to $3.5 million for the six months ended June 30, 2018 compared to $2.5 million for the six months ended June 30, 2017.

Product revenue from Epuris increased to $2.9 million for the six months ended June 30, 2018 compared to $2.2 million for the six months ended June 30, 2017. According to IMS, prescriptions for Epuris during the six months ended June 30, 2018 increased by approximately 24% over the comparative period in the prior year.

Product revenue for the remaining brands, Ozanex, Beteflam, Actikerall and Vaniqa was $0.2 million and $0.6 million for the three months and six months ended June 30, 2018, respectively compared to $0.2 million and $0.3 million for the three and six months ended June 30, 2017, respectively.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
Cost of products sold	**563**	454	**1,059**	907
Research and development	**146**	58	**190**	168
Selling, general and administrative	**3,399**	3,018	**6,808**	5,912
Impairment of intangible assets	**-**	-	**1,832**	-
Total operating expenses	**4,108**	3,530	**9,889**	6,987

Total operating expenses increased $0.6 million or 16% to $4.1 million for the three months ended June 30, 2018 compared to $3.5 million for the three months ended June 30, 2017. The increase in operating expenses for the three months ended June 30, 2018 is primarily due to additional transaction costs of $0.4 million incurred in connection with the acquisition of Cardiome.

For the six months ended June 30, 2018 total operating costs increased $2.9 million or 42% to $9.9 million compared to $7.0 million for the six months ended June 30, 2017 which includes $0.8 million of transaction costs and $1.8 million in the impairment charge related Dermadexin and Pruridexin.

Cost of Products Sold

Cost of products sold for the three months ended June 30, 2018 increased by $0.1 million to $0.6 million compared to $0.5 million for the three months ended June 30, 2017. Gross margin on product sales improved to 67% for the three months ended June 30, 2018 compared to 65% for the three months ended June 30, 2017.

Cost of products sold for the six months ended June 30, 2018 was $1.1 million compared to $0.9 million for the six months ended June 30, 2017. Gross margin on product sales improved to 70% for the six months ended June 30, 2018 compared to 64% for the six months ended June 30, 2017. The gross margin improved as a result of a reduction in the inventory obsolescence provision as certain product sales exceeded the budget to which the provision was originally based upon.

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 of $0.1 million and $0.2 million for the three and six months ended June 30, 2018, respectively, remained relatively unchanged compared to three and six months ended June 30, 2017.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense was $3.4 million for the three months ended June 30, 2018, an increase of $0.4 million or 13% compared to $3.0 million for the three months ended June 30, 2017. SG&A expense was $6.8 million for the six months ended June 30, 2018, an increase of $0.9 million or 15% compared to $5.9 million for the six months ended June 30, 2017. The increase in SG&A expense for the three and six months ended relate to transaction costs incurred in connection with the acquisition of Cardiome, the licensing of Trulance and A101, and the out-licensing of Isotretinoin.

Also included in SG&A is amortization of intangible assets of $0.1 million for the three months ended June 30, 2018 compared to $0.2 million for the three months ended June 30, 2017. Amortization of intangibles for the six months ended June 30, 2018 was $0.3 million compared to $0.4 million for the six months ended June 30, 2017.

Impairment of Intangible Assets

In Q1 2018, the Company re-assessed the success of its efforts to out license its Astion assets acquired in 2015 and decided not to continue to actively pursue partners for Dermadexin and Pruridexin products in this portfolio. As a result, the Company recorded an impairment charge of $1.8 million representing the carrying value of those assets.

OTHER EXPENSES (INCOME)

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
Interest expense	**215**	652	**397**	2,076
Change in fair value of derivative financial instrument	**(121)**	92	**(442)**	(6)
Loss on debt extinguishment	**-**	-	**-**	5,223
Interest income	**(62)**	(2)	**(114)**	(5)
Foreign exchange loss (gain)	**(25)**	(31)	**50**	(59)
Total other expenses (income)	**7**	711	**(109)**	7,229

Total other expense (income) was negligible for the three and six months ended June 30, 2018 compared to $0.7 million and $7.2 million for the three and six months ended June 30, 2017, respectively. In the comparative period, other expenses primarily relate to the loss on debt extinguishment and interest expense on the Notes.

Interest Expense

Interest expense decreased by $0.4 million or 67% to $0.2 million for the three months ended June 30, 2018 compared to $0.6 million for the three months ended June 30, 2017 due to the refinancing of the Notes. The interest rate applicable to the credit facility in the second quarter of 2018 was approximately 3.52%. In the comparative period the stated interest rate on the Notes that were subsequently fully extinguished in the fourth quarter of 2017 was 10.25%.

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 June 30, 2018 compared to a loss of $0.1 million for the three months ended June 30, 2017. The change in fair value of the derivative financial instrument resulted in a gain of $0.4 million for the six months ended June 30, 2018 compared to a gain of $0.1 million for the six months ended June 30, 2017.

Loss on Debt Extinguishment

In Q1 2017, the loss on the debt extinguishment was the difference between the carrying value of the original senior secured notes and the fair value on the date of the partial extinguishment, which includes the prepayment fee of $1.0 million, a borrowing fee of $1.0 million and amendment fee of $0.5 million (see "Significant Transactions" – 2017 Senior Secured Notes).

Interest Income

Interest income for the three and six months ended June 30, 2018 has increased as a result of improved interest rates received on our cash balances.

Foreign Exchange

The Company experienced a de minimus foreign exchange gain for the three and six months ended June 30, 2018 compared to a de minimus foreign exchange gain for the three and six months ended June 30, 2017. 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 months ended June 30, 2018 was $0.9 million compared to $1.2 million for the three months ended June 30, 2017. The income tax expense for the six months ended June 30, 2018 was $0.8 million compared to $0.9 million for the six months ended June 30, 2017.

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 June 30, 2018, the Company has recognized a deferred tax asset on the balance sheet of $2.9 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 June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
		Restated		Restated
Income for the period from continuing operations	**1,915**	4,404	**964**	2,812
Basic and diluted earnings per share from continuing operations	**0.07**	0.16	**0.04**	0.11
Income (loss) for the period from discontinued operations	**213**	(3,268)	**(37)**	(5,030)
Basic and diluted earnings (loss) per share from discontinued operations	**0.01**	(0.12)	**(0.00)**	(0.19)
Income (loss) and comprehensive income (loss) for the period	**2,128**	1,136	**927**	(2,218)
Basic and diluted earnings (loss) per share	**0.08**	0.04	**0.03**	(0.08)

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 June 30, 2018, the computation of diluted earnings per share equals the basic earnings per share due to the anti-dilutive effect of the share-based compensation.

Income from continuing operations per share on both a basic and diluted basis for the three months ended June 30, 2018 was $0.07 compared to income per share on both a basic and diluted basis of $0.16 for the three months ended June 30, 2017. Income from continuing operations per share on both a basic and diluted basis for the six months ended June 30, 2018 was $0.04 compared to income per share on both a basic and diluted basis of $0.11 for the six months ended June 30, 2017.

The weighted average number of shares outstanding for the three months ended June 30, 2018 was 26,767,803 (three months ended June 30, 2017 – 26,553,846). The weighted average number of shares outstanding for the six months ended June 30, 2018 was 26,749,751 (for the six months ended June 30, 2017 – 26,461,581).

The dilutive weighted average number of shares outstanding for the three months ended June 30, 2018 was 27,003,385 (three months ended June 30, 2017 – 26,778,894). The diluted weighted average number of shares outstanding for the six months ended June 30, 2018 was 26,886,843 (for the six months ended June 30, 2017 – 26,830,834).

ADJUSTED EBITDA

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 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 June 30, 2018 was $3.3 million, a decrease of $3.3 million or 50% compared to $6.6 million for the three months ended June 30, 2017.

Adjusted EBITDA for the six months ended June 30, 2018 was $4.3 million, a decrease of $7.5 million or 64% compared to $11.8 million for the six months ended June 30, 2017.

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

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	**$**
		Restated		Restated
Income from continuing operations	**1,915**	4,404	**964**	2,812
Add back:				
Depreciation and amortization	**166**	240	**391**	482
Interest expense, net	**153**	650	**283**	2,071
Income taxes	**927**	1,225	**786**	944
EBITDA	**3,161**	6,519	**2,424**	6,309
Change in fair value of derivative financial instrument	**(121)**	92	**(442)**	(6)
Loss from the translation of Canadian cash balances	**34**	8	**75**	17
Loss of debt extinguishment	**-**	-	**-**	5,223
Impairment of intangible assets	**-**	-	**1,832**	-
Share-based compensation	**246**	29	**403**	238
Adjusted EBITDA	**3,320**	6,648	**4,292**	11,781

Liquidity and Capital Resources

(IN THOUSANDS OF U.S. DOLLARS)	**Three months ended June 30, 2018**	Three months ended June 30, 2017	**Six months ended June 30, 2018**	Six months ended June 30, 2017
	$	$	**$**	$
Cash provided by operating activities	**1,052**	4,456	**9,094**	5,599
Cash provided by (used in) investing activities	**(20,141)**	7,433	**(25,141)**	7,433
Cash provided by (used in) financing activities	**4,788**	(22,823)	**2,997**	(23,592)
Cash used in discontinued operations	**(1,021)**	(3,095)	**(2,477)**	(4,246)
Net change in cash	**(15,322)**	(14,029)	**(15,527)**	(14,806)
Impact of foreign exchange on cash	**(34)**	(8)	**(75)**	(17)
Cash, beginning of period	**27,995**	33,700	**28,241**	34,486
Cash, end of period	**12,639**	19,663	**12,639**	19,663

Cash

As at June 30, 2018, the Company had cash of $12.6 million compared to $28.2 million as at December 31, 2017.

Operating Activities

Cash provided by operating activities was $1.1 million for the three months ended June 30, 2018 compared to $4.5 million for the three months ended June 30, 2017. Cash provided by operating activities, excluding working capital was $3.1 million for the three months ended June 30, 2018 compared to $9.2 million for the three months ended June 30, 2017. The decrease in cash provided by operating activities reflects a $2.0 million investment of working capital compared to a $4.7 million investment in working capital in the comparative period.

For the six months ended June 30, 2018, cash provided by operating activities was $9.1 million compared to $5.6 million for the six months ended June 30, 2017. The increase reflects a recovery of $4.9 million of working capital compared to an investment of $6.2 million in working capital in the comparative prior period. The decrease in the working capital is directly attributable to the payments received from our licensing partners in the first quarter relating to licensing revenue earned in the previous quarter. Royalties earned are paid by our partners on a quarterly basis, subsequent to each quarter end.

Investing Activities

Cash used in investing activities for the three and six months ended June 30, 2018 is related to the acquisition of the Trulance license, A-101 license and Cardiome acquisition. (see “Significant Transactions” – 2018).

Financing Activities

Cash provided by financing activities was $4.8 million for the three months ended June 30, 2018 compared to cash used in financing activities of $22.8 million for the three months ended June 30, 2017. The increase in cash provided in financing activities during the quarter related to the $5 million additional drawdown on the credit facility offset by the lower interest costs. In the comparative period, the Company prepaid $20.0 million of the Notes.

For the six months ended June 30, 2018, cash provided by financing activities was $3.0 million compared to cash used of $23.6 million for the six months ended June 30, 2017, primarily representing the draw down of the credit facility of $5.0 million offset by $1.7 million repayment of the credit facility and the $20.0 million prepayment of the Notes and related early extinguishment costs.

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

As at June 30, 2018, 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 March 2022. 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.

On July 19, 2018, the Company entered into an office lease agreement for its corporate operations to replace its current leased facility expiring December 31, 2018. The new office located in Oakville, Ontario will become the Company’s new registered address. The term of the lease is 10 years and 3 months, commencing on January 1, 2019. The total undiscounted commitment for the lease term is CDN $4.3 million.

Financial Instruments

As at June 30, 2018, the Company’s financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities, the credit facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the consolidated statements of income (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.

The credit facility is measured at amortized cost. At June 30, 2018, the fair value of the credit facility is approximately $21.5 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk 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 81% of total revenue came from three customers and 82% of total accounts receivable is due 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 credit facility bears interest that is pegged to LIBOR and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

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 June 30, 2018, the Company had 26,778,683 common shares issued and outstanding compared to 26,618,558 at June 30, 2017. Subsequent to quarter end, 5,018 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 26,783,701 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.

Future Accounting Standards

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

International Financial Reporting Interpretations Committee (IFRIC), Uncertainty over Income Tax Treatments (IFRIC 23): In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments, with a mandatory effective date of January 1, 2019. The

interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the Company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

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

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 June 30, 2018 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 June 30, 2018.

Selected Quarterly Information

The following amounts are derived from unaudited financial information.

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	**June 30, 2018**	Mar 31, 2018
	$	$
Net revenue	**7.0**	4.6
Net income (loss) for the period	**2.1**	(1.0)
Basic income (loss) per common share	**0.07**	(0.04)
Diluted income (loss) per common share	**0.07**	(0.04)

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2017	Sept 30, 2017	June 30, 2017	Mar 31, 2017
	$	$	$	$
Net revenue [(1)]	12.1	10.0	9.9	8.1
Net income (loss) for the period	3.9	3.9	4.4	(1.6)
Basic income (loss) per common share	0.14	0.15	0.16	(0.06)
Diluted income (loss) per common share	0.14	0.15	0.16	(0.06)

(1) Amounts have been restated upon the full retrospective adoption of IFRS 15*, Revenue from Contracts with Customers.*

(IN MILLIONS OF U.S. DOLLARS EXCEPT FOR PER SHARE AMOUNTS)	Dec 31, 2016	Sept 30, 2016	June 30, 2016	Mar 31, 2016
	$	$	$	$
Net revenue	6.5	7.8	8.5	6.9
Net income (loss) for the period	(0.1)	2.2	0.2	1.8
Basic income (loss) per common share	(0.00)	0.08	0.01	0.07
Diluted income (loss) per common share	(0.00)	0.08	0.01	0.07