Inspire
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cipher™
PHARMACEUTICALS

2017 FIRST QUARTER REPORT

LETTER FROM THE CEO

Dear Shareholder:

I'm pleased to address our shareholders for the first time in my role as the President and CEO of Cipher. In accepting the opportunity to join Cipher, it was clear to me that the business is on a strong foundation with attractive assets, a solid commercial track record and a profitable royalty stream to support future growth initiatives. Cipher has undergone significant change over the past year and, in my view, it's an exciting time to be in this position.

The business is on a strong foundation with attractive assets, a solid commercial track record and a profitable royalty stream to support future growth initiatives.

Marking the conclusion of our strategic review, in May 2017, we announced the sale of the assets in our US business, Cipher US, to EPI Health for cash consideration of US$13.6 million. These changes simplify our business and sharpen the focus on our Canadian commercial operation, our highly profitable global licensing business and our pipeline.

Through the incredible efforts of our Cipher employees, I'm pleased to report that these segments of the business performed well in the first quarter, driving an 18% increase in total revenue to $8.1 million, from $6.9 million in the same period last year.

Our results were highlighted by the strong overall performance of our licensing business, led by Absorica®, which drove a 16% year-over-year increase in total licensing revenue to $6.9 million. Absorica generated revenue of $5.6 million, up 24% from the same period last year. Prescriptions for the product rebounded strongly in March 2017 and we have seen this continue into the second quarter of 2017.

Our Canadian business also performed well in the period, with sales growing 33% over the same period last year to $1.3 million. Epuris® prescriptions rose 35% year-over-year and the product now holds an impressive 26% market share. We now have four commercial products in Canada following the 2016 launch of Actikerall® and Beteflam™. The team continues to focus on increasing sales of current products and expanding the Canadian commercial portfolio.

Toward that end, we announced in May that we received Health Canada approval of OZANEX™, a novel topical antibiotic for the treatment of impetigo, one of the most common and contagious bacterial skin infections in children. We expect to introduce the product later this year.

One of the key financial highlights of the quarter was the 92% increase in Adjusted EBITDA[1] to $5.2 million, from $2.7 million in Q1 2016.

One of the key financial highlights of the quarter was the 92% increase in Adjusted EBITDA[1] to $5.2 million, from $2.7 million in Q1 2016. These results underscore the profitability of our continuing operations and our success in controlling costs. Total operating expenses decreased by 23% in Q1 2017 to $3.5 million from $4.5 million in Q1 2016.

Another important financial development was the amendment to our debt facility. Using $20 million of our cash balance we prepaid half of our outstanding debt, thereby reducing our future interest expense.

Net loss from continuing operations was $1.6 million, or $0.06 per basic share, in the first quarter, compared with net income from continuing operations of $1.8 million, or $0.07 per basic share, last year. The net loss includes the $5.2 million loss on the debt extinguishment.

On behalf of the team, including the directors, I thank our investors for their patience as we have undergone these changes over the past year. Cipher is in a stronger position financially and, in our view, better positioned to deliver profitable growth for shareholders. We expect to build on the strengths of the organization:

- Our global Licensing business continues to deliver robust cash flow, providing us with non-dilutive financing to support our growth plans.
- Our Canadian business has generated consistent sales growth and provides a dependable platform for future product launches.
- The company has an enviable track record of bringing late-stage products through regulatory approval, which we see as a core competency to support future growth.
- Lastly, we have attractive assets in our pipeline and are in a fortunate position that much of the remaining development investment will be borne by partners.

These fundamental elements of our business have us poised for an exciting future.

Sincerely,

“Signed”

Robert Tessarolo
President and Chief Executive Officer

May 12, 2017

1) Refer to page 13.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 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 months ended March 31, 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 May 10, 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, objectives, expectations, anticipations, estimates and intentions. 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 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; 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; operations in the U.S.; inability to meet covenants under our long term debt arrangement; compliance with privacy and security regulation; our policies regarding returns, allowances and chargebacks may reduce revenues; certain 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; 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; 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; volatility of our share price; 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.

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.

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 high unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada and the U.S. or indirectly through partners in Canada, the U.S., and South America. Subsequent to the quarter end, the Company 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.

Growth Strategy

The Company's focus in the short-term is to continue to maximize the potential of our existing commercial products in Canada, while at the same time, identifying new opportunities to acquire additional late-stage products to further strengthen our existing product portfolio.

The Company is building its commercial business in Canada through multiple potential product launches in 2017 and over the next few years. In 2016, the Company launched Actikerall and Beteflam. The Company is currently working on its plan to launch Dexiderm which will be the Company's first over-the-counter ("OTC") brand and Ozenoxacin, a topical treatment for adult and paediatric patients with impetigo has received regulatory approval in Canada in May 2017. Sitavig, was submitted to Health Canada for review in February 2016. In December 2016, the Company received a Notice of Non-Compliance from Health Canada that required additional information for the application. The Company responded to Health Canada in March 2017 and its submission was accepted by Health Canada for review.

Significant Transactions

U.S. ASSET SALE

On May 1, 2017, the Company announced that it sold substantially all of the assets of Cipher Pharmaceuticals US LLC ("Cipher U.S.") (formerly known as Innocutis). Under the terms of the asset purchase agreement ("U.S. APA"), the Company will receive consideration of $13.6 million, subject to certain purchase price adjustments and the transfer of certain liabilities. The Company retained responsibility for certain liabilities and commitments. The agreement also included a potential regulatory milestone of $0.75 million if certain predefined conditions are achieved and includes a hold back of $1,700 which will be settled 18 months from the date of closing. On closing, the Company received $7.6 million in cash.

No adjustments to the long-lived assets were necessary as the estimated purchase price of the U.S. segment is expected to approximate the carrying value of the net assets as at March 31, 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 will only operate 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. As at March 31, 2017, the prepaid portion of the Notes has been reclassified as a current liability and the Financing fees of $2.5 million has been recorded in accounts payable and accrued liabilities on the consolidated statements of financial position. The fair value of the remaining balance of the Notes has been presented as a long term liability.

Significant Partnerships

GALEPHAR

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement ("the Galephar 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 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 ("Galephar Assignee") to assign certain rights relating to CIP-ISOTRETINOIN in the U.S. market. The Company is a party to this contract, 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.

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 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. Beteflam Patch was launched in Canada in April 2016.

Under the terms of the agreement, IBSA is eligible for certain milestones based on commercial and regulatory targets and they supply the finished product to Cipher. The term of the agreement is for ten years 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 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 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 with automatic annual renewals. The Company launched Vaniqa® in the Canadian market in June 2015.

Royalty 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 $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. There is one additional new Absorica patent application pending with the U.S. Patent and Trademark Office.

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. The settlement agreement was subject to review by the U.S. Federal Trade Commission and the U.S. Department of Justice.

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 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 them 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. Brazil is the largest isotretinoin market in Latin America, with annual sales exceeding $50 million, and the market has been growing steadily. 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". Fibrates have proven to be superior in lowering triglycerides and raising HDL levels. 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 $11.1 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. The novel formulation delivers rapid absorption, similar absorption under different dietary conditions, and 24-hour coverage, supporting ease-of-use for physicians and a high level of compliance among chronic pain sufferers. 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 US$50 million, which represents 43.4% 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 addition, the FDA said that a new Risk Evaluation and Mitigation Strategy ("REMS") program would be required.

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 under the trade name Durela® in Canada. 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. The Company is responsible for product supply and manufacturing, which is 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 current proposal for cost sharing among the approximately 20 members is based on market share. The study is expected to be initiated in 2017 and the total cost estimate is approximately CDN$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 owes a CDN $200,000 milestone to Ferrer upon obtaining regulatory approval in Canada. The Company is targeting a product launch in late 2017. 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. Sitavig is based on proprietary Lauriad® technology from Onxeo S.A. ("Onxeo"). Administration of a single Sitavig tablet enables the active ingredient to penetrate the surrounding tissues in significantly higher concentrations than is possible through systemic delivery. The prescription herpes labialis market is largely genericized. The Company's New Drug Submission for Sitavig was accepted for review by Health Canada.

DERMADEXIN™, PRURIDEXIN™ AND ASF-1096

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 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 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) and is developing launch plans for the products in Canada. 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, as a Class III medical device. Cipher is seeking partners in Europe for Pruridexin and Dermadexin.

ASF-1096

Cipher has an orphan drug indication in the EU for ASF-1096, a product candidate that has promise as a treatment for a highly disfiguring rare disease, discoid lupus erythematosus, with no current cure as well as other potential rare conditions in the European market. 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”), and has now completed the study design for a phase III program. Can-Fite plans to start enrolling patients into the phase III RA program in the second quarter of 2017 and start the psoriasis phase III program in the second half of 2017, with patient enrolment commencing early 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, a Pennsylvania-based life sciences company. The assets include 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 first-in-class 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. Cipher is engaged in pre-clinical studies for its oral and IV formulations which may lead to Investigational New Drug status with the FDA, Health Canada and other health authorities. The plan for the development of the remaining six topical and oral skin cancer compounds in the portfolio has not yet been established. The transaction included an upfront payment to Melanovus of $0.5 million, as well as the payment of certain IP expenses related to patent prosecution and maintenance.

TATTOO REMOVAL CREAM

In May 2016, Cipher licensed the worldwide rights to develop, market and sell an investigational tattoo removal cream from Dalhousie University. 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 Quarter Information

As at March 31, 2017, the Company determined that the assets and liabilities of its U.S. segment met the criteria to be classified as a disposal group held for sale. Accordingly, the assets and liabilities of the U.S. segment were reclassified in the interim condensed consolidated statements of financial position as at March 31, 2017 to current assets held for sale and current liabilities directly associated with the assets classified as held for sale, respectively as the sale of such assets and liabilities is expected within one year. In addition, 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 period 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 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 March 31, 2017	Three months ended March 31, 2016
	$	$
Net revenues	**8.1**	6.9
Total operating expenses	**3.5**	4.5
Total other expenses	**6.5**	0.5
Income (loss) for the period from continuing operations	**(1.6)**	1.8
Loss for the period from discontinued operations	**(1.8)**	(4.5)
Income (loss) from continuing operations per share:		
Basic earnings (loss)	**(0.06)**	0.07
Diluted earnings (loss)	**(0.06)**	0.07
Loss from discontinued operations per share:		
Basic loss	**(0.06)**	(0.17)
Diluted loss	**(0.06)**	(0.17)
Total assets from continuing operations	**64.1**	65.0
Total non-current liabilities from continuing operations	**20.4**	36.8

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

- In Q1 2017, revenue for the three months then ended experienced double digit growth;
- In Q1 2017, the Company recognized a loss on debt extinguishment of $5.2 million related to the early partial prepayment of the senior secured notes (the "Notes");
- In Q1 2017, the U.S. segment assets and non-current liabilities have been reclassified as held for sale on the consolidated statements of financial position and the operating results as discontinued operations on the consolidated statements of income (loss) and comprehensive income (loss).

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

Review of Operating Results

REVENUE
(IN THOUSANDS OF U.S. DOLLARS)

	2017	2016
	$	$
Licensing revenue	**6,891**	5,948
Product revenue	**1,252**	945
Net revenues	**8,143**	6,893

Total revenue increased by 18% to $8.1 million for the three months ended March 31, 2017 compared to $6.9 million for the three months ended March 31, 2016. License revenue increased to $6.9 million for the three months ended March 31, 2017 compared to $5.9 million for the three months ended March 31, 2016. Product revenue increase to $1.3 million for the three months ended March 31, 2017 compared to $0.9 million for the three months ended March 31, 2016.

Licensing Revenue

Licensing revenue increased by 16% or $0.9 million to $6.9 million for the three months ended March 31, 2017 compared to $5.9 million for the three months ended March 31, 2016.

Licensing revenue from Absorica in the U.S. was $5.6 million for the three months ended March 31, 2017, an increase of $1.1 million compared to $4.5 million for the three months ended March 31, 2016.

Licensing revenue from Lipofen and the authorized generic version of Lipofen were $1.2 million for the three months ended March 31, 2017, an increase of $0.3 million compared to sales of $0.9 million for the three months ended March 31, 2016.

Licensing revenue from the extended-release tramadol product (ConZip in the U.S. and Durela in Canada) were $0.1 million for the three months ended March 31, 2017, a decrease of $0.4 million compared to sales of $0.5 million for the three months ended March 31, 2016. Competition from authorized generics will continue to put pressure on the sales of tramadol in both markets.

Product Revenue

Product revenue increased by 32% or $0.3 million to $1.3 million for the three months ended March 31, 2017 compared to $0.9 million for the three months ended March 31, 2016.

Product revenue from Epuris increased to $1.1 million for the three months ended March 31, 2017 compared to $0.8 million for the three months ended March 31, 2016. According to IMS, the Canadian market for isotretinoin was CDN$18.3 million in 2016. Epuris had a prescription market share of over 26% in Canada for the three months ended March 31, 2017 compared to 19.6% for the three months ended March 31, 2016. Prescriptions for Epuris during the three months ended March 31, 2017 increased by 35% over the comparative period in the prior year. (source: IMS).

Product revenue for the remaining brands, Beteflam, Actikerall and Vaniqa was $0.1 million for the three months ended March 31, 2017, compared to $0.1 million for the three months ended March 31, 2016.

OPERATING EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Cost of products sold	**407**	298
Research and development	**50**	86
Selling, general and administrative	**3,000**	4,082
Total operating expenses	**3,457**	4,466

Total operating expenses decreased to $3.5 million or 23% for the three months ended March 31, 2017 compared to $4.5 million for the three months ended March 31, 2016.

Cost of Products Sold

Cost of products sold increased by $0.1 million to $0.4 million for the three months ended March 31, 2017 compared to $0.3 million for the three months ended March 31, 2016. The gross margin on product sales was $0.8 million or 67% for the three months ended March 31, 2017 compared to $0.6 million or 68% for the three months ended March 31, 2016.

Research and Development

Research and development (R&D) expenses represents the cost of the Company's drug development activities and the cost of regulatory submissions in Canada.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense was $3.0 million for the three months ended March 31, 2017, a decrease of $1.1 million or 27% compared to $4.1 million for the three months ended March 31, 2016. The decrease in SG&A costs were comprised of an overall reduction in compensation costs, including share-based compensation and a reduction in professional fees.

Also, included in SG&A is amortization of intangible assets of $0.2 million for the three months ended March 31, 2017 compared to $0.2 million for the three months ended March 31, 2016.

OTHER EXPENSES

(IN THOUSANDS OF U.S. DOLLARS)

	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Interest on senior secured notes	**1,424**	1,333
Change in fair value of derivative financial instrument	**(98)**	82
Loss on debt extinguishment	**5,223**	-
Interest income	**(3)**	(38)
Foreign exchange gain	**(28)**	(895)
Total other expenses	**6,518**	482

Total other expenses were $6.5 million for the three months ended March 31, 2017 compared to $0.5 million for the three months ended March 31, 2016.

Loss on Debt Extinguishment

The majority of the increase in other expenses 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 and amendment fee of $0.5 million.

Interest on Senior Secured Notes

For the three months ended March 31, 2017 interest on senior secured notes increased to $1.4 million from $1.3 million for the three months ended March 31, 2016. This is comprised of interest payments of $1.0 million and imputed interest accretion of $0.4 million. The stated interest rate on the Notes is 10.25%.

Change in Fair Value of Derivative Financial Instrument

The gain from the change in the fair value of the warrants was $0.1 million for the three months ended March 31, 2017 compared to a loss of $0.1 million for the three months ended March 31, 2016. The gain arose from a combination of the decrease in the share price and the passage of time.

Foreign Exchange

The Company experienced a de minimus foreign exchange gain for the three months ended March 31, 2017 compared to a foreign exchange gain of $0.9 million for the three months ended March 31, 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 recovery of $0.3 million for the three months ended March 31, 2017 related to the increase in the deferred tax asset to $7.1 million compared to an income tax expense of $0.2 million for the three months ended March 31, 2016 related to the drawdown of the deferred tax asset of the Canadian operations.

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. At March 31, 2017, the Company has recognized a deferred tax asset on the balance sheet of $7.1 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 EXCEPT FOR PER SHARE AND SHARE AMOUNTS)

	2017	2016
	$	$
Income (loss) for the period from continuing operations	**(1,562)**	1,783
Basic and diluted income (loss) from continuing operations	**(0.06)**	0.07
Loss for the period from discontinued operations	**(1,769)**	(4,477)
Basic and diluted loss from discontinued operations	**(0.06)**	(0.17)

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is calculated taking into account dilutive instruments that are outstanding. For the three months ended March 31, 2017, the computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the share-based compensation.

Loss from continuing operations per share on a basic and diluted basis for the three months ended March 31, 2017 was $0.06 compared to income per share on a basic and diluted basis of $0.07 for the three months ended March 31, 2016.

The weighted average number of shares outstanding as at March 31, 2017 was 26,388,513 (March 31, 2016 – 26,086,669). The dilutive weighted average number of shares outstanding as at March 31, 2017 was 26,906,098 (March 31, 2016 – 26,339,974).

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, (gain) 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 performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors and analysts.

Adjusted EBITDA for the three months ended March 31, 2017 was $5.2 million, an increase of $2.5 million or 92% compared to $2.7 million for the three months ended March 31, 2016.

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Income (loss) from continuing operations	**(1,562)**	1,783
Add back:		
Depreciation and amortization	**242**	249
Interest expense	**1,424**	1,333
Income taxes	**(270)**	162
EBITDA	**(166)**	3,527
Change in fair value of derivative financial instrument	**(98)**	82
(Gain) loss from the translation of Canadian cash balances	**9**	(1,441)
Loss of debt extinguishment	**5,223**	-
Share-based compensation	**209**	526
Adjusted EBITDA	**5,177**	2,694

Liquidity and Capital Resources

(IN THOUSANDS OF U.S. DOLLARS EXCEPT FOR PER SHARE AND SHARE AMOUNTS)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
	$	$
Income (loss) from continuing operations	**(1,562)**	1,783
Cash provided by operating activities	**1,143**	2,135
Cash used in investing activities	**-**	(19)
Cash used in financing activities	**(769)**	(791)
Cash used in discontinued operations	**(1,151)**	(1,146)
Impact of foreign exchange on cash	**(9)**	1,441
Net change in cash	**(777)**	179
Cash, beginning of period	**34,486**	27,182
Cash, end of period	**33,700**	28,802

Cash

As at March 31, 2017, the Company has cash of $33.7 million compared to $28.8 million as at March 31, 2016.

Operating Activities

Cash provided by operating activities was $1.1 million for the three months ended March 31, 2017 compared to $2.1 million for the three months ended March 31, 2016. The increase in cash provided by operating activities related to a $1.5 million investment 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 $2.7 million for both the current and the comparative prior period.

Financing Activities

Cash used in financing activities was $0.8 million for the three months ended March 31, 2017 compared to $0.8 million for the three months ended March 31, 2016. In the current period, interest payments on the Notes was partially offset by proceeds from shares issued under the share purchase plan and from the exercise of stock options.

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 March 31, 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 March 31, 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 March 31, 2017, the fair value of the remaining Notes is approximately $19,500. 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 82.3% of total sales came from two customers and 94.6% of total accounts receivable came from two customers.

Liquidity Risk

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

Currency Risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. dollars. The Company is exposed to currency risk through its net assets 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 preference shares, issuable in series, and an unlimited number of voting common shares. As at March 31, 2017, the Company had 26,507,661 common shares issued and outstanding compared to 26,161,662 at March 31, 2016. Subsequent to quarter end, 3,612 common shares were issued under the employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 26,511,273 as of the date of this MD&A.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Risk Factors

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

Disclosure Controls and Procedures

There have been no changes in the Company's internal control over financial reporting during the most recent interim period ended March 31, 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 March 31, 2017.

Cipher Pharmaceuticals Inc.

Interim Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2017

Cipher Pharmaceuticals Inc.

Interim Consolidated Statements of Financial Position

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

	Note	2017	2016
		$	$
ASSETS			
Current assets			
Cash	4	**33,700**	34,486
Accounts receivable		**15,175**	14,644
Inventory		**656**	1,272
Prepaid expenses and other assets		**628**	1,767
Assets held for sale	3	**13,914**	-
		64,073	52,169
Property and equipment, net		**636**	790
Intangible assets, net		**6,436**	17,582
Deferred tax assets	8	**7,134**	6,864
Total assets		**78,279**	77,405
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4	**14,667**	16,003
Provisions		**3,561**	4,769
Current portion of deferred revenue		**177**	176
Current portion of senior secured notes	4	**20,000**	-
Liabilities held for sale	3	**4,239**	-
		42,644	20,948
Deferred revenue		**445**	487
Senior secured notes	4	**19,500**	36,377
Derivative financial instrument	4	**485**	583
Other long term liabilities		**-**	996
Total liabilities		**63,074**	59,391
SHAREHOLDERS' EQUITY			
Share capital	5	**17,311**	16,192
Contributed surplus		**5,427**	6,024
Accumulated other comprehensive loss		**(9,514)**	(9,514)
Retained earnings		**1,981**	5,312
Total shareholders' equity		**15,205**	18,014
Total liabilities and shareholders' equity		**78,279**	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 months ended March 31, 2017 and 2016
(in thousands of United States dollars, except per share data - unaudited)

	Note	2017	2016
		$	$
Revenues			
Licensing revenue		**6,891**	5,948
Product revenue		**1,252**	945
Net revenues		**8,143**	6,893
Operating expenses			
Cost of products sold		**407**	298
Research and development	6	**50**	86
Selling, general and administrative	6	**3,000**	4,082
Total operating expenses		**3,457**	4,466
Other expenses (income)			
Interest on senior secured notes	4	**1,424**	1,333
Change in fair value of derivative financial instrument	4	**(98)**	82
Interest income		**(3)**	(38)
Loss on debt extinguishment	4	**5,223**	-
Foreign exchange gain		**(28)**	(895)
Total other expenses		**6,518**	482
Income (loss) before income taxes from continuing operations		**(1,832)**	1,945
Income taxes (recovery)	8	**(270)**	162
Income (loss) and comprehensive income (loss) from continuing operations		**(1,562)**	1,783
Loss and comprehensive loss from discontinued operations	3	**(1,769)**	(4,477)
Loss and comprehensive (loss) for the period		**(3,331)**	(2,694)
Income (loss) from continuing operations per common share			
Basic	9	**(0.06)**	0.07
Diluted	9	**(0.06)**	0.07
Loss from discontinued operations per common share			
Basic		**(0.06)**	(0.17)
Diluted		**(0.06)**	(0.17)

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

Three month ended March 31, 2017 and 2016
(in thousands of United States dollars - unaudited)

	Note	Share Capital		Contributed Surplus	Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
		000's	$	$	$	$	$
Balance, January 1, 2017		26,313	16,192	6,024	(9,514)	5,312	18,014
Loss for the period		-	-	-	-	(3,331)	(3,331)
Exercise of stock options	5	111	706	(469)	-	-	237
Shares issued under the share purchase plan	5	11	36	-	-	-	36
Shares issued under the RSU plan	5	73	377	(377)	-	-	-
Share-based compensation expense	5	-	-	249	-	-	249
Balance, March 31, 2017		**26,508**	**17,311**	**5,427**	**(9,514)**	**1,981**	**15,205**
Balance, January 1, 2016		26,058	14,947	4,363	(9,514)	44,461	54,257
Loss for the period		-	-	-	-	(2,694)	(2,694)
Exercise of stock options	5	40	223	(118)	-	-	105
Shares issued under the share purchase plan	5	39	167	-	-	-	167
Shares issued under the RSU plan	5	25	204	(204)	-	-	-
Share-based compensation expense	5	-	-	728	-	-	728
Balance, March 31, 2016		26,162	15,541	4,769	(9,514)	41,767	52,563

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

Cipher Pharmaceuticals Inc.
Interim Consolidated Statements of Cash Flows

Three months period ended March 31, 2017 and 2016
(in thousands of United States dollars - unaudited)

	Note	2017	2016
		$	$
Cash provided by (used in)			
Operating activities			
Income (loss) for the period from continuing operations		**(1,562)**	1,783
Items not affecting cash:			
Depreciation of property and equipment		**33**	20
Amortization of intangible assets		**209**	229
Share-based compensation		**209**	514
Foreign exchange (gain) loss on cash		**9**	(1,441)
Change in fair value of derivative		**(98)**	82
Loss on debt extinguishment	4	**2,723**	-
Interest on senior secured notes		**1,424**	1,333
Deferred income taxes		**(270)**	162
Changes in non-cash operating items:			
Accounts receivable		**(2,962)**	940
Inventory		**119**	(626)
Prepaid expenses and other assets		**172**	116
Accounts payable and accrued liabilities		**1,178**	(791)
Deferred revenue		**(41)**	(186)
Net cash provided by operating activities		**1,143**	2,135
Investing activities			
Purchase of property and equipment		**-**	(19)
Net cash used in investing activities		**-**	(19)
Financing activities			
Interest payments		**(1,024)**	(1,038)
Payment of finance lease liability		**(13)**	-
Proceeds from shares issued under the share purchase plan		**31**	142
Proceeds from exercise of stock options		**237**	105
Net cash used in financing activities		**(769)**	(791)
Cash used in discontinued operations	3	**(1,151)**	(1,146)
(Decrease) increase in cash		**(777)**	179
Impact of foreign exchange on cash		**(9)**	1,441
Cash, beginning of period		**34,486**	27,182
Cash, end of period		**33,700**	28,802

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

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 May 10, 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, certain department costs that were previously considered as part of research and development expense were determined to be SG&A in nature. Lastly, 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 for further information regarding the facts and circumstances which give rise to the Company’s 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 March 31, 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.

The Notes are measured at amortized cost. At March 31, 2017, the fair value of the remaining Notes is approximately $19,500. The fair values are 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 is in the process of evaluating the impact on the consolidated financial statements.

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 has not yet assessed the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

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 will be recorded on the consolidated statements of financial position.

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 has not yet evaluated the impact on the consolidated financial statements.

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 AND ASSETS HELD FOR SALE

The Company determined that the assets and liabilities of its U.S. segment met the criteria to be classified as a disposal group held for sale for the period ended March 31, 2017. Accordingly, the assets and liabilities of the U.S. segment were reclassified in the consolidated statements of financial position as at March 31, 2017 to current assets held for sale and liabilities directly associated with assets respectively, as the sale of such assets and liabilities is expected within one year.

On May 1, 2017, subsequent to quarter end, the Company entered into an Asset Purchase Agreement (the "U.S. APA") to sell 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. 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 a potential regulatory milestone of $750 if certain predefined conditions are achieved. On closing, the Company received $7,600 in cash. No adjustments to the long-lived assets were necessary, as the estimated purchase price of the U.S. segment is expected to approximate the carrying value of the net assets as at March 31, 2017.

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

The following table summarizes the carrying value of the major classes of assets and liabilities of the disposal group classified as held for sale as at March 31, 2017:

	March 31, 2017
	$
Accounts receivable	1,985
Inventory	589
Prepaid expenses and other assets	885
Property and equipment, net	72
Intangibles assets, net	10,383
Total assets classified as held for sale	**13,914**
Accounts payable and accrued liabilities	3,166
Provisions	1,073
Total liabilities classified as held for sale	**4,239**

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 Mar 31, 2017	Three Months Mar 31, 2016
	$	$
Net revenues	**2,327**	2,202
Total operating expenses	**4,096**	6,679
Loss before income taxes	**(1,769)**	(4,477)
Income taxes	**-**	-
Loss for the period from discontinued operations	**(1,769)**	(4,477)

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

	Three Months Mar 31, 2017	Three Months Mar 31, 2016
	$	$
Net cash flows attributable to:		
Operating activities	**(1,143)**	(720)
Investing activities	**(8)**	(426)
Cash used in discontinued operations	**(1,151)**	(1,146)

4. SENIOR SECURED NOTES

On March 31, 2017, 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 agreed to prepay $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, which have been recognized as part of the loss on extinguishment. In consideration for the prepayment, the lender modified the financial covenants and removed its security interest in the U.S. segment assets. As at March 31, 2017, the prepaid portion of the Notes have

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

been reclassified as a current liability and the financing costs of $2,500 have been recorded in accounts payable and accrued liabilities. The fair value of the remaining balance of the Notes have been recorded as long term senior secured notes.

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. 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 March 31, 2017.

The following is the continuity of the Notes from January 1, 2016 to March 31, 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
Fair value of consideration after extinguishment	**42,000**

The following is a reconciliation of the fair value of the consideration after extinguishment to the interim consolidated statements of financial position:

	$
Current portion of senior secured notes	20,000
Non-current portion of senior secured notes	19,500
Borrowing fee included in accounts payable and accrued liabilities	1,000
Prepayment penalty included in accounts payable and accrued liabilities	1,000
Amendment fee included accounts payable and accrued liabilities	500
Fair value of consideration after extinguishment	**42,000**

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) and expire seven years from the date of issuance. A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants as at December 31, 2016 and March 31, 2017 were $583 and $485 respectively.

The variables used to compute the fair value as at December 31, 2016 and March 31, 2017 are as follows:

	Dec 31, 2016	Mar 31, 2017
Share price	$3.65	$3.45
Expected life	5.2 years	5.0 years
Volatility	56.0%	54.0%

5. SHARE CAPITAL

Authorized share capital

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

The Company has three 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 March 31, 2017, 10,468 shares were issued under the ESPP (three months ended March 31, 2016 - 38,212). Included in share-based compensation expense is $5 (three months ended March 31, 2016 - $25), which is the discount on the shares issued during the period.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2016 to March 31, 2017:

	Number of options (in thousands)	Weighted average exercise price $
Balance outstanding - January 1, 2016	1,414	6.39
Granted	688	4.94
Exercised	(116)	2.49
Forfeited	(429)	5.70
Balance outstanding - December 31, 2016	1,557	6.39
Exercised during the period	(199)	3.64
Forfeited/expired during the period	(59)	8.77
Balance outstanding - March 31, 2017	1,299	7.64

As at March 31, 2017, 815,210 options were fully vested and exercisable (March 31, 2016 - 546,100).

The following information relates to stock options that were outstanding as at March 31, 2017:

Range of exercise prices	Number of options (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price
CDN$			CDN$
1.05 - 4.60	206	5.0	2.26
4.61 - 6.20	157	9.3	5.77
6.21 - 13.88	936	7.9	9.15
	1,299	7.6	7.64

During the quarter, 198,502 stock options were exercised in exchange for 111,374 common shares (three months ended March 31, 2016 - 40,000 stock options in exchange for 40,000 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 March 31, 2017 was $237 (three months ended March 31, 2016 - $62).

The total stock option expense for the three months ended March 31, 2017 is $141 (three months ended March 31, 2016 - $577).

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

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

A summary of the RSUs and PSUs granted and outstanding as at March 31, 2017 is as follows:

	RSUs	PSUs
	Number of Units	Number of Units
	000's	000's
Balance, January 1, 2017	202	78
Vested in Q1 2017	(73)	-
Forfeited/cancelled in Q1 2017	(17)	(7)
Balance, March 31, 2017	**112**	**71**

The total expense for RSUs and PSUs for the three months ended March 31, 2017 is $108 (three months ended March 31, 2016 - $151).

6. 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 Mar 31, 2017	Three Months Mar 31, 2016
	$	$
Salaries, bonuses and benefits	**803**	1,161
Share-based compensation	**209**	515
Termination benefits	**-**	93
Total employee costs	**1,012**	1,769

For the three months ended March 31, 2017 and March 31, 2016, all employee salaries and benefits are recorded in selling, general and administrative.

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

7. 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 Mar 31, 2017	Three Months Mar 31, 2016
	$	$
Salaries and short-term employee benefits, including bonuses	**136**	329
Directors fees	**70**	71
Share-based compensation	**108**	360
	314	760

8. 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 Mar 31, 2017	Three Months Mar 31, 2016
	$	$
Income (loss) before income taxes from continuing operations	**(1,832)**	1,945
Tax provision at the statutory income tax rate of 26.5%	**(485)**	516
Permanent differences	**289**	171
Effect of currency translation adjustment	**(74)**	(525)
Income tax expense (recovery)	**(270)**	162

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

The movement in the deferred income tax asset for the three months ended March 31, 2017 and 2016 is as follows:

	Three Months Mar 31, 2017	Three Months Mar 31, 2016
	$	$
As at January 1	**6,864**	8,356
Change in deferred tax as asset	**270**	(162)
As at March 31	**7,134**	8,194

9. 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 March 31, 2017 was 26,388,513 (three months ended March 31, 2016 - 26,086,669).

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 March 31, 2017 was 26,906,098 (three months ended March 31, 2016 - 26,339,974). For the three months ended March 31, 2017, the computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the share-based compensation.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company may be the subject of litigation or other potential claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against litigation. At March 31, 2017, no amounts were accrued (March 31, 2016 - nil).

Licensing Agreements with Galephar

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

With respect to CIP-ISOTRETINOIN, the Company has entered into licensing and distribution arrangements for the U.S. 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-ISOTRETOIN directly to the Assignee.

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CORPORATE DIRECTORY

DIRECTORS

Mark Beaudet
Chair

Dr. Stefan Aigner
Director

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.

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Auditors
PricewaterhouseCoopers LLP

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