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 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.

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

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.