



# **Cipher Pharmaceuticals Inc.**

**Condensed interim consolidated financial statements  
Unaudited**

**For the three and nine months ended  
September 30, 2024**

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the **condensed** interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Cipher Pharmaceuticals Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity's auditor.

# Cipher Pharmaceuticals Inc.

Condensed Interim Consolidated Statements of Financial Position  
(Unaudited)

(in thousands of United States dollars)

	As at September 30, 2024	As at December 31, 2023
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,524	39,825
Accounts receivable	13,215	5,088
Inventory (Note 4)	5,271	2,982
Prepaid expenses and other assets	1,048	378
<b>Total current assets</b>	<b>29,058</b>	<b>48,273</b>
Property and equipment, net	853	402
Intangible assets, net (Note 5)	85,972	1,763
Deferred financing costs (Note 8)	376	—
Goodwill	15,706	15,706
Deferred tax assets (Note 14)	21,890	19,887
<b>Total assets</b>	<b>153,855</b>	<b>86,031</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	5,464	4,596
Interest payable	401	—
Contract liability (Note 6)	8,380	562
Current portion of lease obligation (Note 7)	263	94
<b>Total current liabilities</b>	<b>14,508</b>	<b>5,252</b>
Lease obligation (Note 7)	489	259
Long-term debt (Note 8)	40,000	—
<b>Total liabilities</b>	<b>54,997</b>	<b>5,511</b>
<b>Shareholders' equity</b>		
Share capital (Note 9)	27,911	18,012
Contributed surplus (Note 9)	6,153	5,755
Accumulated other comprehensive loss	(9,514)	(9,514)
Retained earnings	74,308	66,267
<b>Total shareholders' equity</b>	<b>98,858</b>	<b>80,520</b>
<b>Total liabilities and shareholders' equity</b>	<b>153,855</b>	<b>86,031</b>

Commitments and contingencies (Note 15)

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

Approved on behalf of the Board:

(Signed) "Craig Mull"

**Craig Mull**  
Chairman

(Signed) "Harold Wolkin"

**Harold Wolkin**  
Director

# Cipher Pharmaceuticals Inc.

## Condensed Interim Consolidated Statements of Income and Comprehensive Income (Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
<b>Revenue</b>				
Licensing revenue (Note 10)	1,055	3,090	5,273	6,936
Product revenue	9,315	2,978	16,268	9,306
<b>Net revenue</b>	<b>10,370</b>	<b>6,068</b>	<b>21,541</b>	<b>16,242</b>
<b>Operating expenses</b>				
Cost of products sold (Note 4)	1,970	1,076	4,131	3,114
Research and development	—	10	—	110
Depreciation and amortization	1,925	269	2,506	954
Selling, general and administrative (Notes 11 & 12)	6,182	1,690	9,251	4,400
<b>Total operating expenses</b>	<b>10,077</b>	<b>3,045</b>	<b>15,888</b>	<b>8,578</b>
<b>Other (income) expenses</b>				
Interest expense (income) (Note 8)	292	(533)	(874)	(1,315)
Unrealized foreign exchange (gain) loss	(325)	434	718	(21)
<b>Total other (income) expenses</b>	<b>(33)</b>	<b>(99)</b>	<b>(156)</b>	<b>(1,336)</b>
<b>Income before income taxes</b>	<b>326</b>	<b>3,122</b>	<b>5,809</b>	<b>9,000</b>
Current income tax expense (Note 14)	—	116	—	328
Deferred income tax expense (recovery) (Note 14)	43	(4,025)	(2,392)	(4,056)
<b>Total income tax expense (recovery)</b>	<b>43</b>	<b>(3,909)</b>	<b>(2,392)</b>	<b>(3,728)</b>
<b>Net income and comprehensive income for the period</b>	<b>283</b>	<b>7,031</b>	<b>8,201</b>	<b>12,728</b>
<b>Income per share (Note 13)</b>				
Basic	0.01	0.28	0.34	0.50
Diluted	0.01	0.27	0.33	0.50

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

# Cipher Pharmaceuticals Inc.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(in thousands of United States dollars)

	Share Capital		Contributed Surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	(000s)	\$				
<b>Balance, January 1, 2024</b>	<b>23,988</b>	<b>18,012</b>	<b>5,755</b>	<b>(9,514)</b>	<b>66,267</b>	<b>80,520</b>
Net income for the period	—	—	—	—	<b>8,201</b>	<b>8,201</b>
Shares issued under the share purchase plan (Note 9)	<b>5</b>	<b>30</b>	—	—	—	<b>30</b>
Shares issued under the restricted share unit plan (Note 9)	<b>118</b>	<b>200</b>	<b>(200)</b>	—	—	—
Exercise of stock options (Note 9)	<b>30</b>	<b>207</b>	<b>(100)</b>	—	—	<b>107</b>
Share-based compensation expense (Note 9)	—	—	<b>698</b>	—	—	<b>698</b>
Purchase of common shares under common share repurchase plan (Note 9)	<b>(26)</b>	<b>(16)</b>	—	—	<b>(160)</b>	<b>(176)</b>
Shares issued as purchase consideration, net (Notes 3 & 9)	<b>1,474</b>	<b>9,478</b>	—	—	—	<b>9,478</b>
<b>Balance, September 30, 2024</b>	<b>25,589</b>	<b>27,911</b>	<b>6,153</b>	<b>(9,514)</b>	<b>74,308</b>	<b>98,858</b>
<b>Balance, January 1, 2023</b>	25,063	17,719	5,358	(9,514)	50,517	64,080
Net income for the period	—	—	—	—	12,728	12,728
Shares issued under the share purchase plan (Note 9)	11	31	—	—	—	31
Shares issued under the restricted share unit plan (Note 9)	261	497	(497)	—	—	—
Exercise of stock options (Note 9)	143	341	(132)	—	(10)	199
Share-based compensation expense (Note 9)	—	—	968	—	—	968
Purchase of common shares under common share repurchase plan (Note 9)	(167)	(102)	—	—	(356)	(458)
<b>Balance, September 30, 2023</b>	<b>25,311</b>	<b>18,486</b>	<b>5,697</b>	<b>(9,514)</b>	<b>62,879</b>	<b>77,548</b>

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

# Cipher Pharmaceuticals Inc.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of United States dollars)

	Nine months ended September 30,	
	2024	2023
	\$	\$
<b>Operating activities</b>		
Net income for the period	8,201	12,728
Add (deduct) items not affecting cash:		
Depreciation and amortization	2,506	954
Share-based compensation	698	968
Unrealized foreign exchange (gain) loss	718	(21)
Non-cash interest expense	23	7
Amortization of deferred financing costs (Note 8)	22	—
Deferred income taxes	(2,392)	(4,056)
	<u>9,776</u>	<u>10,580</u>
Changes in working capital balances related to operations:		
Accounts receivable	(8,127)	101
Inventory	314	(376)
Prepaid expenses and other assets	(400)	(76)
Accounts payable and accrued liabilities	868	2,997
Income taxes payable	—	327
Interest payable	401	—
Contract liability (Note 6)	7,829	29
<b>Cash provided by operating activities</b>	<u>10,661</u>	<u>13,582</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(37)	—
Acquisition of net assets (Note 3)	(80,000)	—
<b>Cash used in investing activities</b>	<u>(80,037)</u>	<u>—</u>
<b>Financing activities</b>		
Payment of lease obligations (Note 7)	(141)	(75)
Proceeds from long-term debt (Note 8)	40,000	—
Financing costs for revolving credit facility (Note 8)	(398)	—
Share issuance costs (Note 9)	(22)	—
Proceeds from shares issued under the share purchase plan	30	31
Purchase of common shares under a common share repurchase plan	(176)	(458)
Exercise of stock options	107	199
<b>Cash provided by (used in) financing activities</b>	<u>39,400</u>	<u>(303)</u>
<b>Net (decrease) increase in cash during the period</b>	<u>(29,976)</u>	<u>13,279</u>
Impact of foreign exchange on cash and cash equivalents	(325)	(29)
Cash and cash equivalents, beginning of period	39,825	28,836
<b>Cash and cash equivalents, end of period</b>	<u>9,524</u>	<u>42,086</u>

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

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

### 1. Nature of operations

Cipher Pharmaceuticals Inc. (“Cipher”) and its subsidiaries (together the “Company”) is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late-stage products. The Company acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly or indirectly in Canada and the United States (“U.S.”). The Company is building its business through product acquisitions and in-licensing arrangements. Cipher was incorporated under the *Business Corporations Act* (Ontario) on January 9, 2004 and the Company’s corporate office is located at 5750 Explorer Drive, Suite 404, Mississauga, Ontario. The address of the Company’s registered office is 77 King Street West, Suite 3000, Toronto, Ontario.

### 2. Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The disclosures contained in these condensed interim consolidated financial statements do not include all of the requirements of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board for annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS, and are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). The condensed interim consolidated financial statements are based on accounting policies as described in the Company’s annual consolidated financial statements for the year ended December 31, 2023, except for the adoption of new standards effective as of January 1, 2024 and amendments to existing accounting policies or the addition of accounting policies with respect to underlying items not present for the year ended December 31, 2023, as outlined below.

Certain prior period balances have been reclassified to conform with the current financial statement presentation.

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned legal subsidiaries: Cipher US Holdings Inc., Cipher US Holdco LLC and Cipher Pharmaceuticals US LLC. All significant inter-company balances and transactions have been eliminated upon consolidation.

The Board of Directors approved these condensed interim consolidated financial statements on November 7, 2024.

### Product revenue

Product revenue is recognized upon shipment of product to the Company’s customers. The transaction price is based on list prices that are published annually. Revenue is recorded on a net basis, representing the amounts receivable from customers after the deduction for rebates, chargebacks, discounts, returns and early payment discounts. The methodology and assumptions used to estimate rebates, chargebacks, discounts, returns and early payment discounts are monitored and adjusted in light of contractual and historical information. Invoices are generated at the time of product shipment and are payable within 30 to 90 days.

The provision for rebates is an estimate used in the recognition of revenue. The Company has rebate agreements in place under the Medicaid Drug Rebate Program, pertaining to sales of certain of the Company’s products in the U.S. The Medicaid Program provides drug coverage to patients enrolled in the program, and the rebates paid by the Company help to offset the U.S. Federal and state costs of outpatient prescription drugs dispensed to Medicaid patients. The Company is responsible for paying a rebate on those drugs for which payment was made under a state plan, which is paid by the Company on a quarterly basis to states and are shared between the states and the Federal government. Provisions for rebates are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue and recorded as a contract liability on the condensed interim consolidated statements of financial position. The Company estimates provisions for rebates based upon contractual terms, historical experience, trend analysis, and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

information. The Company continually monitors provisions for rebates and adjusts when it believes that actual rebates may differ from established reserves.

The provision for chargebacks is an estimate used in the recognition of revenue. The Company has contractual arrangements with various customers that specify discounted pricing for the purchase of the Company's products by end customers. The difference between the wholesale price paid by the Company's wholesale customers and the price paid by their end customer is the chargeback amount. Provisions for chargebacks are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue and recorded as a contract liability on the condensed interim consolidated statements of financial position. The Company estimates provisions for chargebacks based on the number of chargeback claims attributable to product sales for each period. The Company continually monitors provisions for chargebacks and adjusts when it believes that actual chargebacks may differ from established reserves.

The provision for discounts is an estimate used in the recognition of revenue. The Company grants discounts based on the terms of arrangements with direct, indirect and other market participants, as well as in consideration of market conditions. Provisions for discounts are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue and recorded as a contract liability on the condensed interim consolidated statements of financial position. The Company continually monitors provisions for discounts and adjusts when it believes that actual discounts may differ from established reserves.

The provision for returns is an estimate used in the recognition of revenue. The Company has a returns policy that allows customers to return product within a specified period prior to and after the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue and recorded as a contract liability on the condensed interim consolidated statements of financial position. The Company estimates provisions for returns based upon historical experience, if applicable, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and adjusts when it believes that actual product returns may differ from established reserves.

### **Inventory**

Inventory, which is comprised of raw materials and finished goods, is valued at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. Net realizable value is the estimated selling price less applicable selling cost. If the carrying value exceeds net realizable amount, a provision is recognized. The provision may be reversed in a subsequent period if the circumstances which caused the write down no longer exists.

An inventory provision is estimated by management based on expected future sales and expiry dates of finished goods and is recorded in cost of products sold. Subsequent changes to provisions are recorded in cost of products sold in the condensed interim consolidated statements of income and comprehensive income.

Inventories acquired through business combinations are initially recognized at fair value.

### **Business combinations**

Acquisitions have been accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in the condensed interim consolidated statements of income and comprehensive income as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are initially recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Changes in fair value that are not considered measurement adjustments are recognized through the condensed interim consolidated statements of income and comprehensive income. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Contingent consideration that is classified as a financial asset or a financial liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in the condensed interim consolidated statements of income and comprehensive income.

### Fair value of financial instruments

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

As at September 30, 2024, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt. Cash and cash equivalents, accounts receivable, and accounts payable, accrued liabilities and long-term debt are measured at amortized cost and their fair values approximate carrying values.

### 3. Acquisition

On July 26, 2024, the Company signed a definitive asset purchase agreement with ParaPRO LLC ("ParaPRO") and closed the acquisition of the global product rights for Natroba™ and its authorized generic Spinosad, as well as the commercial sales team in the United States (the "Natroba Acquisition").

The Natroba Acquisition was completed for total consideration of \$89,500. The Company paid \$80,000 in cash, satisfied by \$40,000 from cash on-hand and \$40,000 from a credit facility (refer to Note 8 for further information on the credit facility). The Company additionally issued \$9,500 worth of common shares of Cipher to ParaPRO, representing 1,474,097 shares at a deemed issue price of CDN\$8.91 per share.

Acquisition related costs of \$1,861 were charged to the condensed interim consolidated statements of income and comprehensive income for the nine months ended September 30, 2024.

The accounting for the Natroba Acquisition is not final as the Company is in the process of concluding on the valuation.

### Fair Value of Consideration Transferred

	\$
Cash	40,000
Proceeds from long-term debt	40,000
Issuance of common shares	9,500
<b>Total consideration transferred</b>	<b>89,500</b>

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

### Assets Acquired and Liabilities Assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	<b>Amounts Recognized as of the Acquisition Date</b>
	<b>\$</b>
Inventory	2,603
Prepaid expenses and other assets	270
Property and equipment	36
Intangible assets	86,591
<b>Total identifiable net assets</b>	<b>89,500</b>

For the period from acquisition to September 30, 2024, the business acquired in the Natroba Acquisition contributed revenue of \$5,480 and net income of \$1,966.

On a pro-forma basis, by including results for the period prior to the Company's acquisition of January 1, 2024 to July 25, 2024, the Company's consolidated revenues would have been higher by \$16,154 and net income before tax would be increased by \$715 for the nine months ended September 30, 2024.

### 4. Inventory

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
	<b>\$</b>	<b>\$</b>
Finished goods	4,648	3,194
Raw materials	880	—
Obsolescence provision	(257)	(212)
	<b>5,271</b>	<b>2,982</b>

Inventory amounts recorded in cost of products sold for the three and nine months ended September 30, 2024, were \$1,302 and \$2,751, respectively (three and nine months ended September 30, 2023 – \$615 and 1,860 respectively).

### 5. Intangible assets

Intangible assets consist of intellectual property, licensing rights, and intellectual product rights of the Company portfolio, as well as customer relationships:

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

<b>Cost</b>	<b>\$</b>
Balance, January 1, 2023	6,079
Additions	123
Balance, December 31, 2023	6,202
Additions	86,591
<b>Balance, September 30, 2024</b>	<b>92,793</b>
<b>Accumulated amortization</b>	
Balance, January 1, 2023	3,325
Amortization	1,114
Balance, December 31, 2023	4,439
Amortization	2,382
<b>Balance, September 30, 2024</b>	<b>6,821</b>
<b>Net book value</b>	
<b>As at September 30, 2024</b>	<b>85,972</b>
As at December 31, 2023	1,763

Amortization expense for the three and nine months ended September 30, 2024 were \$1,863 and \$2,382, respectively (three and nine months ended September 30, 2023 – \$615 and 1,860 respectively – \$241 and \$869 respectively), is recorded in depreciation and amortization expense in the condensed interim consolidated statements of income and comprehensive income. The average remaining amortization period of the intangible assets is 3.44 years.

As at September 30, 2024, the Company had intangible assets with a cost of \$500 (December 31, 2023 – \$500), which are not yet available for use. Accordingly, amortization has not commenced on these intangible assets.

### 6. Contract liabilities

The following table is the continuity of the contract liabilities for the nine months ended September 30, 2024 and for the year ended December 31, 2023:

	<b>Chargebacks/ Rebates</b>	<b>Returns</b>	<b>Inventory Management</b>	<b>Discounts</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, January 1, 2023	—	257	—	37	294
Additions	—	599	—	281	880
Payments	—	(343)	—	(276)	(619)
Foreign exchange	—	6	—	1	7
<b>Balance, December 31, 2023</b>	<b>—</b>	<b>519</b>	<b>—</b>	<b>43</b>	<b>562</b>
Additions	6,302	522	1,226	540	8,590
Payments	(48)	(322)	(34)	(356)	(760)
Foreign exchange	—	(10)	—	(2)	(12)
<b>Balance, September 30, 2024</b>	<b>6,254</b>	<b>709</b>	<b>1,192</b>	<b>225</b>	<b>8,380</b>

The closing balance relates to provisions made to estimate the liabilities arising from chargebacks, rebates, returns, inventory management and discounts recorded as a reduction of revenue.

### 7. Lease obligations

The Company has an office lease for its corporate operations head office in Mississauga, Ontario. The term of the lease is five years and commenced on June 1, 2022. The undiscounted commitment for the remaining lease term as of September 30, 2024 is \$320.

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

The Company has leases for vehicles used in its U.S. operations. The terms of the vehicle leases range from three to five years, with various lease commencement dates. The Company acquired the leases in connection with the Natroba Acquisition on July 26, 2024. The undiscounted commitment for the remaining lease terms as of September 30, 2024 is \$552.

The Company has an office lease for its U.S. headquarters in Carmel, Indiana. In connection with the Natroba Acquisition, the Company entered into a month-to-month lease for office space, which commenced on July 26, 2024. The Company has applied the exemption for short-term leases under IFRS 16 *Leases*, and accordingly has not recorded a right-of-use asset or lease obligation for the office space lease in the condensed interim consolidated statements of financial position. The lease for office space has been assessed by the Company as a short-term lease, given the lease term is less than twelve months. The lease term of less than twelve months has been determined based on the month-to-month nature of the lease and the termination provisions of the lease. Under the terms of the lease agreement, the Company as the lessee, or the landlord as the lessor, each have the unilateral ability to cancel the lease with 30 days' notice and without incurring any penalties. These provisions of the lease agreement result in a lease term that is not enforceable beyond a one-month period, and consequently represents a short-term lease.

The carrying amounts of the Company's lease obligations and movements during the nine months ended September 30, 2024 and the year ended December 31, 2023 were as follows:

	Office Lease \$	Vehicle Leases \$	Total \$
Balance, January 1, 2023	428	—	428
Remeasurement of lease obligations	19	—	19
Interest expense	9	—	9
Payments	(111)	—	(111)
Foreign exchange	8	—	8
<b>Balance, December 31, 2023</b>	<b>353</b>	<b>—</b>	<b>353</b>
Additions	—	508	508
Interest expense	18	5	23
Payments	(103)	(38)	(141)
Foreign exchange	9	—	9
<b>Balance, September 30, 2024</b>	<b>277</b>	<b>475</b>	<b>752</b>
Current portion	100	163	263
Long-term portion	177	312	489

### 8. Long-term debt

Effective July 25, 2024, the Company terminated its credit facility (the "Credit Facility") with Royal Bank of Canada. Under the terms of the Credit Facility, the Company had up to \$35,000 of financing available, structured as a \$15,000 Senior Secured Revolving Term Loan (the "Term Loan") with an additional accordion option to be increased by \$10,000, combined with a \$10,000 Senior Secured Revolving Credit Facility (the "Revolving Loan"). The initial term of the Term Loan was three years and the Revolving Loan was payable on demand. Prior to and on the termination date of July 25, 2024, there were no amounts drawn on the Credit Facility.

On July 26, 2024, the Company entered into a credit facility with National Bank of Canada ("National Bank"), as lead arranger and sole bookrunner of a syndicated credit facility (the "New Credit Facility"). Under the terms of the New Credit Facility, National Bank provided the Company with access to up to \$65,000 through a revolving credit facility. In addition, the New Credit Facility contains an optional \$25,000 accordion which may be drawn subject to the approval of National Bank. The New Credit Facility has an effective date of July 26, 2024 and a maturity of

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

three years from the effective date, with an optional annual extension clause. The New Credit Facility bears interest at market prevailing rates once drawn upon.

On July 26, 2024, the New Credit Facility was drawn upon by the Company for \$40,000, to partially fund the Natroba Acquisition.

Interest rates for the amount drawn on the New Credit Facility are calculated based on adjusted term Secured Overnight Financing Rate ("SOFR"), plus a tiered applicable margin determined quarterly based on the Company's leverage ratio. The Company also pays a customary tiered standby fee on available but undrawn amounts under the New Credit Facility. Interest expense on the New Credit Facility for the three and nine months ended September 30, 2024 was \$521 (three and nine months ended September 30, 2023 – \$nil), which has been recognized on the condensed interim consolidated statements of income and comprehensive income. As at September 30, 2024, the outstanding balance on the New Credit Facility was subject to an interest rate of 6.63%.

Costs associated with entering into the New Credit Facility of \$398 were deferred and recognized on the condensed interim consolidated statements of financial position and are subject to amortization on a straight-line basis over three years, consistent with the maturity of the New Credit Facility. Due to the revolving nature of the New Credit Facility, these costs are not included in the carrying value of long-term debt. Amortization of deferred financing costs of \$22 for the three and nine months ended September 30, 2024 has been recognized on the condensed interim consolidated statements of income and comprehensive income.

The following table describes movements in the Company's long-term debt balance:

	\$
Balance, January 1, 2023	—
Draw on long-term debt	—
Repayment of long-term debt	—
<b>Balance, December 31, 2023</b>	<b>—</b>
Draw on long-term debt	40,000
Repayment of long-term debt	—
<b>Balance, September 30, 2024</b>	<b>40,000</b>

## 9. 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 the following share-based compensation plans: The Stock Option Plan ("SOP"), the Employee and Director Share Purchase Plan ("ESPP"), and the Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") Plan. Full descriptions of the share-based compensation plans are included in Note 12 "Share Capital" to the Company's annual consolidated financial statements as at and for the year ended December 31, 2023.

### 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.

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

During the three months ended September 30, 2024, 1,185 shares were issued under the ESPP (three months ended September 30, 2023 – 3,688) at a weighted average trading price of CDN\$11.76 (three months ended September 30, 2023 – CDN \$3.76). Included in share-based compensation expense is \$2 (three months ended September 30, 2023 – \$2), which is the discount on the shares issued during the period.

During the nine months ended September 30, 2024, 4,835 shares were issued under the ESPP (nine months ended September 30, 2023 – 11,375) at a weighted average trading price of CDN\$8.66 (nine months ended September 30, 2023 – CDN \$3.66). Included in share-based compensation expense is \$5 (nine months ended September 30, 2023 – \$6), which is the discount on the shares issued during the period.

### Normal course issuer bid

On November 15, 2023, the Company announced that the TSX had approved the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time up to November 19, 2024, up to an aggregate of 1,337,195 of its issued and outstanding common shares, being 10% of its public float of 13,371,956 common shares as of November 10, 2023.

On September 19, 2022, the Company announced that the TSX had approved the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time up to September 21, 2023, up to an aggregate of 1,403,293 of its issued and outstanding common shares, being 10% of its public float of 14,032,934 common shares as of September 8, 2022.

During the nine months ended September 30, 2024, the Company purchased for cancellation 25,685 common shares (nine months ended September 30, 2023 – 167,030) at an average price of CDN\$9.21 per common share (nine months ended September 30, 2023 – CDN\$3.69). The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by \$160 (nine months ended September 30, 2023 – \$356), which was recorded in retained earnings.

### Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2024 to September 30, 2024:

	Number of options (000s)	Weighted average exercise price (CDN \$)
<b>Balance, January 1, 2024</b>	<b>843</b>	<b>3.08</b>
Granted during the period	513	12.01
Exercised during the period	(30)	4.85
Forfeited/expired during the period	—	—
<b>Balance, September 30, 2024</b>	<b>1,326</b>	<b>6.49</b>

As at September 30, 2024, 350,564 options were fully vested and exercisable (December 31, 2023 – 191,287).

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

During the nine months ended September 30, 2024, the Company granted 512,575 stock options under the SOP (nine months ended September 30, 2023 – 352,490). The options vest over a four-year period from the grant date, at a rate of 25% per year and expire seven years from the day of grant. The expected volatility is based on the Company's historical volatility over a comparable period based on expected life. There is no expected dividend. The exercise price and Black-Scholes assumptions are as follows:

<b>Grant date</b>	<b>Number granted</b>	<b>Exercise price (CDN\$)</b>	<b>Black-Scholes value (CDN\$)</b>	<b>Risk-free interest rate</b>	<b>Expected life</b>	<b>Expected volatility</b>
March 20, 2024	202,575	8.15	3.36	3.69%	4.9 years	52.8%
September 30, 2024	310,000	14.53	5.93	2.96%	4.9 years	53.3%

The total stock option expense for the three months ended September 30, 2024 is \$250 (three months ended September 30, 2023 – \$132). The total stock option expense for the nine months ended September 30, 2024 is \$526 (nine months ended September 30, 2023 – \$302).

The following information relates to stock options that were outstanding as at September 30, 2024:

<b>Range of exercise prices (CDN \$)</b>	<b>Number of options (000s)</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price (CDN \$)</b>
0.72 – 1.48	88	2.46 years	0.88
2.17 – 5.06	665	5.06 years	2.99
6.19 – 8.15	263	6.08 years	7.72
8.16 – 14.53	310	7.00 years	14.53
	<b>1,326</b>	<b>5.54 years</b>	<b>6.49</b>

During the three months ended September 30, 2024, no stock options were exercised (three months ended September 30, 2023 – 82,411) for gross proceeds of \$nil (three months ended September 30, 2023 – \$134).

During the nine months ended September 30, 2024, 29,753 stock options were exercised (nine months ended September 30, 2023 – 151,722) for gross proceeds of \$107 (nine months ended September 30, 2023 – \$209).

The Company's SOP provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options. The fair value of grants with these market conditions are estimated based on the expected payout as of the grant date, or at the start of the service period to the extent the service period commences prior to the grant dates.

### Restricted Share Unit and Performance Share Unit Plan

On May 13, 2015, the Company adopted an RSU and PSU Plan. RSUs and PSUs are notional share units exchangeable for common shares of the Company. RSUs are granted to all employees and directors of the Company and PSUs are granted to certain executives. RSUs granted to employees vest annually over three or four years and RSUs granted to directors vest over a one-year period. The fair value of RSUs granted is defined as the Company's share price on the date of the grant. There are no PSUs outstanding as at September 30, 2024.

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

A summary of the RSUs granted and outstanding as at September 30, 2024 is as follows:

	<b>Number of RSUs</b> (000s)
<b>Balance, January 1, 2024</b>	<b>351</b>
Granted during the period	—
Vested and settled during the period	<b>(118)</b>
Forfeited/cancelled during the period	—
<b>Balance, September 30, 2024</b>	<b>233</b>

The total expense for RSUs for the three months ended September 30, 2024 is \$39 (three months ended September 30, 2023 – \$181). The total expense for the nine months ended September 30, 2024 is \$167 (nine months ended September 30, 2023 – \$660).

### Shares Issued as Purchase Consideration

On July 26, 2024, in connection with the Natroba Acquisition, the Company issued \$9,500 worth of common shares of Cipher to ParaPRO as purchase consideration, representing 1,474,097 shares at a deemed issue price of CDN\$8.91 per share. These common shares have been recognized net of share issuance costs of \$22 in the condensed interim consolidated statements of changes in shareholders' equity.

## 10. Licensing Revenue

The Company earns licensing revenue from both royalties on products sold by its commercial partners and product sales to its commercial partners. The breakdown is as follows:

	<b>Three months ended September 30, 2024</b>	Three months ended September 30, 2023	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
	\$	\$	\$	\$
Royalty revenue	<b>715</b>	1,132	<b>3,114</b>	4,037
Licensing product sales	<b>340</b>	1,958	<b>2,159</b>	2,899
<b>Total licensing revenue</b>	<b>1,055</b>	3,090	<b>5,273</b>	6,936

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

### 11. Expenses by nature

Selling, general and administrative expenses in the condensed interim consolidated statements of income and comprehensive income include the following categories of expenses by nature and function:

	<b>Three months ended September 30, 2024</b>	Three months ended September 30, 2023	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
	\$	\$	\$	\$
Salaries and benefits compensation	<b>1,678</b>	413	<b>2,452</b>	813
Share-based compensation	<b>291</b>	315	<b>698</b>	968
Professional fees	<b>1,429</b>	601	<b>2,431</b>	1,505
Sales and marketing	<b>749</b>	142	<b>841</b>	247
Regulatory and pharmacovigilance	<b>125</b>	120	<b>386</b>	296
Insurance	<b>49</b>	34	<b>120</b>	145
Acquisition, restructuring and other costs	<b>1,577</b>	—	<b>1,861</b>	269
Other administrative costs	<b>284</b>	65	<b>462</b>	157
	<b>6,182</b>	1,690	<b>9,251</b>	4,400

### 12. 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:

	<b>Three months ended September 30, 2024</b>	Three months ended September 30, 2023	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
	\$	\$	\$	\$
Salaries, directors' fees, bonuses, and benefits	<b>524</b>	315	<b>842</b>	454
Share-based compensation	<b>148</b>	158	<b>438</b>	757
Termination benefits	<b>—</b>	—	<b>—</b>	230
	<b>672</b>	473	<b>1,280</b>	1,441

The interim Chief Executive Officer of the Company did not receive cash compensation in the capacity as an executive, rather received share-based compensation, and received cash-paid directors' fees in the capacity as Chairman of the Board.

### 13. Net income per common share

Net income per share is calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended September 30, 2024 was 25,172,076 (three months ended September 30, 2023 – 25,305,228). The weighted average number of common shares outstanding for the nine months ended September 30, 2024 was 24,429,348 (nine months ended September 30, 2023 – 25,254,508).

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

Diluted net income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the three months ended September 30, 2024 was 25,693,575 (three months ended September 30, 2023 – 25,699,188). The dilutive weighted average for the nine months ended September 30, 2024 was 24,925,261 (nine months ended September 30, 2023 – 25,636,975).

### 14. Income taxes

Income tax expense (recovery) is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction, taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered. The income tax expense for the three months ended September 30, 2024 was \$43 (three months ended September 30, 2023 – \$3,909 income tax recovery). The income tax recovery for the nine months ended September 30, 2024 was \$2,392 (nine months ended September 30, 2023 – \$3,728).

As at September 30, 2024, the Company has recognized deferred tax assets in the condensed interim consolidated statements of financial position of \$21,890 (December 31, 2023 – \$19,887).

### 15. Commitments and contingencies

Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors and officers liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

Executive employment agreements allow for additional payments if a change of control occurs or for termination with or without cause.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined.

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.

#### Development milestones

The Company has development and regulatory milestone payments of up to \$4,050 related to the MOB-015 pipeline product for the treatment of nail fungus ("MOB-015"), in Canada. Additionally, MOB-015 has up to \$10,000 of potential sales milestone payments if certain sales thresholds are reached, and the Company will be subject to payment of a royalty on net sales.

The Company has development and regulatory milestone payments of CDN\$1,000 related to its near-term pipeline product, CF-101 Piclidenoson in the treatment of moderate to severe psoriasis, that become payable upon achievement of certain clinical trial and regulatory approval metrics.

#### Lease obligations

The Company has certain lease obligations, as described in Note 7.

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

### Licensing agreements with Galephar

In 2002, the Company entered into a Master Licensing and Clinical Supply Agreement (the "Agreement") with Galephar Pharmaceutical Research Inc. ("Galephar"), a Puerto Rico based pharmaceutical research and manufacturing company. Under the Agreement, the Company acquired the rights to package, test, obtain regulatory approvals and market CIP-FENOFIBRATE, CIP-ISOTRETINOIN and CIP-TRAMADOL ER (the "CIP Products") in various countries. In accordance with the Agreement, the Company retains 50% of all revenue from licensing and distribution arrangements entered into with respect to the CIP Products, with the other 50% due to Galephar. Galephar retains the right to manufacture and supply the CIP Products. With respect to licensing and distribution arrangements, the Company manages the product supply arrangements with commercial partners and Galephar; product is shipped directly from Galephar to the respective commercial partners. Where the Company has opted to market and sell a CIP Product itself, 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 Mexico, 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 the U.S. The Company has opted to market and sell CIP-TRAMADOL ER directly in Canada effective April 2022.

During the three and nine months ended September 30, 2024, the Company paid royalties to Galephar of \$1,390 and \$4,892, respectively (three and nine months ended September 30, 2023 – \$1,681 and \$4,597, respectively). As at September 30, 2024, the Company had royalties payable to Galephar of \$683 (as at December 31, 2023 – \$1,398). Royalties payable to Galephar are remitted quarterly, after the Company collects from its licensing partners. Accordingly, the Company's accounts receivable have a corresponding balance representing amounts owed from its licensing partners. Royalties paid and payable to Galephar with respect to the Company's licensing agreements are included in and have the affect of reducing net revenue, specifically licensing revenue, in the condensed interim consolidated statements of income and comprehensive income.

## 16. Related party transactions

### Lease for U.S. Office Space

The Company has entered into a lease agreement for office space of its U.S. headquarters in Carmel, Indiana. The counterparty to the lease agreement is a company affiliated with ParaPRO, the former owner of the business acquired by Cipher in connection with the Natroba Acquisition. During the three and nine months ended September 30, 2024, the Company paid rent to this related party of \$15 (three and nine months ended September 30, 2023 – \$nil). As at September 30, 2024, the Company had rent payable to this related party of \$8 (December 31, 2023 – \$nil).

### Transition Services from ParaPRO

In connection with the Natroba Acquisition, the Company has entered into a transition services arrangement with ParaPRO, the former owner of the business acquired by Cipher. Accordingly, ParaPRO is providing certain transition services to Cipher for a period of time post-acquisition, in exchange for consulting fees. During the three and nine months ended September 30, 2024, the Company incurred consulting fees with ParaPRO of \$189 (three and nine months ended September 30, 2023 – \$nil). As at September 30, 2024, the total amount of consulting fees of \$189 was an outstanding payable to ParaPRO (December 31, 2023 – \$nil).

## 17. Segment information

The Company's operations are categorized into one reporting segment, being specialty pharmaceuticals. However, The Company's operations occur in multiple geographies, primarily Canada and the U.S.

# Cipher Pharmaceuticals Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

The geographic segmentation of the Company's net revenue based on the location in which such revenue is generated is as follows:

	<b>Three months ended September 30, 2024</b>	Three months ended September 30, 2023	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
	\$	\$	\$	\$
<b>Canada</b>				
Product revenue	<b>3,835</b>	2,978	<b>10,788</b>	<b>9,306</b>
<b>Total Canada</b>	<b>3,835</b>	2,978	<b>10,788</b>	<b>9,306</b>
<b>U.S.</b>				
Product revenue	<b>5,480</b>	—	<b>5,480</b>	—
Licensing revenue	<b>1,055</b>	3,090	<b>5,273</b>	6,936
<b>Total U.S.</b>	<b>6,535</b>	3,090	<b>10,753</b>	6,936
<b>Total net revenue</b>	<b>10,370</b>	6,068	<b>21,541</b>	16,242

Non-current assets consist of property and equipment, intangible assets, deferred financing costs, goodwill, and deferred tax assets. The geographic segmentation of the Company's non-current assets is as follows:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
	\$	\$
Canada	<b>122,655</b>	37,758
U.S.	<b>2,142</b>	—
	<b>124,797</b>	37,758