FORM 51-102F4
BUSINESS ACQUISITION REPORT

Item 1 Identity of Company

1.1 Name and Address of Company

Cipher Pharmaceuticals Inc. (the "**Company**")
5750 Explorer Dr., Suite 404
Mississauga, Ontario
L4W 0A9

1.2 Executive Officer

Ryan Mailling
Chief Financial Officer
905 602 5840 x260

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On July 26, 2024, the Company and its subsidiary, Cipher Pharmaceuticals US LLC ("**Cipher US**") completed the acquisition from privately held ParaPRO, LLC ("**ParaPRO**"), of the global product rights for (i) NATROBA™ (Spinosad) Topical Suspension, 0.9% and (ii) an authorized generic Spinosad Topical Suspension, each marketed, commercialized and distributed for the specific use of pediculosis capitis and sarcoptes scabei (collectively, the "**Natroba Products**"). In connection with the acquisition the Company and Cipher US also acquired substantially all of the commercial assets of ParaPRO, LLC used in connection with the marketing, commercialization, distribution and sale of the Natroba Products including, without limitation, the commercial sales team in the United States.

2.2 Acquisition Date

July 26, 2024.

2.3 Consideration

The consideration for the acquisition was US$89.5 million. US$80 million was paid in cash (satisfied from US$40 million cash on hand and US$40 million from a revolving credit facility) and issued US$9.5 million in common shares of the Company (1,474,097 shares at a deemed issue price of CAD$8.91).

In connection with the completion of the acquisition, the Company entered into a credit agreement with the National Bank of Canada ("**National Bank**"), for a US$65 million revolving credit facility which was partially drawn to fund the acquisition. Under the terms of the credit agreement, National Bank agreed to provide the Company with access to US$65 million through a revolving credit facility, with an additional US$25 million through an optional accordion feature. The credit facility matures three years from closing and has an optional annual extension clause.

Further information about the acquisition and the credit facility can be found in the Company's press release dated July 29, 2024, the asset purchase agreement dated July 26, 2024, the credit agreement dated July 26, 2024 and the Company's material change report dated August 2, 2024, copies of which have been filed under the Company’s profile on SEDAR+ at www.sedarplus.ca.

2.4 Effect on Financial Position

The acquisition complements the Company’s current business. The Company has no current plans or proposals for material changes in its business affairs or the affairs relating to the acquired assets, which may have a significant effect on the results of operations and financial position of the Company.

See the unaudited pro forma combined financial statements and the accompanying notes thereto included in this Business Acquisition Report and attached as Schedule “C” hereto. The unaudited pro forma combined financial statements are presented for informational purposes only and are not necessarily indicative of what the Company’s results of operations and financial position would have been had the transaction been completed on the dates indicated. In addition, the unaudited pro forma combined financial statements do not purport to project the future results of operations or financial position of the Company.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The transaction was not with an informed person, associate or affiliate of the Company as defined in Section 1.1 of National Instrument 51-102 *Continuous Disclosure Obligations*.

2.7 Date of Report

October 9, 2024.

Item 3 Financial Statements

The following financial statements are included in this Business Acquisition Report:

(a) the audited annual consolidated financial statements of the acquired business, together with the notes thereto and the auditor's report thereon, as at and for the year ended December 31, 2023 and the unaudited annual consolidated financial statements of the acquired business, together with the notes thereto as at and for the year ended December 31, 2022 (which have not been subject to an auditor review), attached hereto as Schedule "A";

(b) the unaudited condensed interim consolidated financial statements of the acquired business for the three and six months ended June 30, 2024 and June 30, 2023 (which have not been subject to an auditor review), attached hereto as Schedule "B"; and

(c) unaudited pro forma consolidated financial statements of the Company that give effect to the acquisition, comprised of (i) the pro forma consolidated statement of financial position as at June 30, 2024; (ii) the pro forma consolidated statement of income (loss) and earnings per share for each of (a) the six month period ended June 30, 2024, and (b) the year ended December 31, 2023, together with notes thereto, attached hereto as Schedule "C".

The financial statements of the acquired business are carve-out financial statements of a portion of the ParaPRO legal entity, prepared specifically to present the operations of ParaPRO that are representative of the business that will be carried on by the Company and Cipher US post-acquisition.

SCHEDULE "A"
ANNUAL FINANCIAL STATEMENTS OF THE ACQUIRED BUSINESS
(YEAR ENDED DECEMBER 31, 2023 AUDITED, YEAR ENDED DECEMBER 31, 2022 UNAUDITED)

See attached.

Natroba Commercial Operations

(A Carve-Out Business of ParaPRO, LLC)

Financial Statements

For the Year Ended December 31, 2023

(with unaudited comparatives for the year ended December 31, 2022)

FINANCIAL STATEMENT SCHEDULES

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of Cipher Pharmaceuticals Inc.

Qualified Opinion

We have audited the carve-out financial statements (the "financial statements") of ParaPRO, LLC (the "Business"), which comprise the statement of financial position as at December 31, 2023, and the statements of operations, changes in invested equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Business as at December 31, 2023, and its operations and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles of the United States of America.

Basis for Qualified Opinion

We were not able to observe the counting of the physical inventories at the beginning of the year on January 1, 2023 (the “opening inventories”) or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations and cash flows, we were unable to determine whether adjustments to the results of operations and cash flows might be necessary for the year ended December 31, 2023. Our audit opinion on the financial statements for the year ended December 31, 2023 is modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Business in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The corresponding figures presented in these financial statements are unaudited.

Other Information

Management is responsible for the other information. The other information comprises the Business Acquisition Report that is to be filed by Cipher Pharmaceuticals Inc. in connection with its acquisition of the Business.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Principles of the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Business's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Business or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Business's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Business's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Business to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
October 9, 2024
Toronto, Ontario

Natroba Commercial Operations
Balance Sheets
(in thousands of United States dollars)

	December 31,	
	2023	2022 (Unaudited)
Assets		
Current assets		
Accounts receivable, net	$ 9,654	$ 9,087
Inventory *(Note 4)*	3,363	2,937
Prepaids and other current assets	531	618
Total current assets	13,548	12,642
Property and equipment, net *(Note 5)*	64	105
Operating lease right of use assets, net *(Note 10)*	192	238
Finance lease right of use assets, net *(Note 10)*	273	233
Total assets	$ 14,077	$ 13,218
Liabilities and Invested Equity		
Current liabilities		
Accounts payable	$ 2,078	$ 1,467
Accrued liabilites *(Note 9)*	17,232	15,576
Current portion of operating lease liabilities *(Note 10)*	47	44
Current portion of finance lease liabilities *(Note 10)*	135	179
Total current liabilities	19,492	17,266
Long-term operating lease liabilities *(Note 10)*	148	195
Long-term finance lease liabilities *(Note 10)*	145	62
Total liabilities	19,785	17,523
Commitments and contingencies *(Note 12)*		
Invested equity		
Net parent investment *(Note 8)*	(5,708)	(4,305)
Total invested equity	(5,708)	(4,305)
Total liabilities and invested equity	$ 14,077	$ 13,218

See accompanying notes to financial statements.

Natroba Commercial Operations
Statements of Operations
(in thousands of United States dollars)

	Year Ended December 31, 2023	Year Ended December 31, 2022 (Unaudited)
Net revenue *(Note 3)*	$ 28,610	$ 24,760
Costs and expenses *(Note 6)*		
Cost of products sold	3,498	3,421
Selling, general and administrative	11,486	11,777
Research and development	73	406
Depreciation and amortization	258	282
Total costs and expenses	15,315	15,886
Interest expense	13	13
Net income	$ 13,282	$ 8,861

See accompanying notes to financial statements.

Natroba Commercial Operations
Statements of Changes in Invested Equity
(in thousands of United States dollars)

	Year Ended December 31, 2023	Year Ended December 31, 2022 (Unaudited)
Beginning Balance	$ (4,305)	$ (8,798)
Net transfers to parent *(Note 8)*	(14,685)	(4,368)
Net Income	13,282	8,861
Ending Balance	$ (5,708)	(4,305)

See accompanying notes to financial statements.

Natroba Commercial Operations
Statements of Cash Flows
(in thousands of United States dollars)

	Year Ended December 31, 2023	Year Ended December 31, 2022 (Unaudited)
Cash flows from operating activities		
Net Income	$ 13,282	$ 8,861
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	41	40
Amortization of finance lease assets	217	242
Changes in operating assets and liabilities		
Accounts receivable	(567)	(928)
Inventory	(426)	(971)
Prepaids and other current assets	87	17
Accounts payable	611	(4,628)
Accrued liabilities	1,656	2,014
Lease liabilities	16	23
Net cash provided by operating activities	14,917	4,670
Cash flows from investing activities		
Purchases of property and equipment	-	(45)
Net cash used in investing activities	-	(45)
Cash flows from financing activities		
Payments of finance leases	(232)	(257)
Net transfers to parent	(14,685)	(4,368)
Net cash used in financing activities	(14,917)	(4,625)
Net decrease in cash	-	-
Cash balances		
Beginning of year	-	-
End of year	$ -	$ -
Supplemental disclosures of cash flow information		
Cash paid for finance lease interest	$ 13	$ 13
Leased assets obtained in exchange for new finance lease liabilities	257	475
Leased assets obtained in exchange for new operating lease liabilities	-	249

See accompanying notes to financial statements.

Natroba Commercial Operations
NOTES TO FINANCIAL STATEMENTS
(in thousands of United States dollars)

(1) Description of the Business

Background and nature of operations

The accompanying carve-out financial statements include the historical accounts of ParaPRO, LLC (“Parent”, “ParaPRO”) that hold all the assets of, and operate the commercialized operations related to Natroba and Spinosad, herein collectively referred to as the “Natroba Commercial Operations” (“the Business”, “we”, "us", and “our”).

The Business specializes in the marketing and distribution of treatments for head lice and scabies infestations. The Business’s two products are Natroba, the propriety brand name formulation, and Spinosad, a generic equivalent product. Natroba and Spinosad are distributed nationally across retail pharmacies and specialty channels in the United States, primarily through long-term partnerships with major pharmaceutical wholesalers.

Sale of Natroba Commercial Operations

On July 26, 2024, Parent closed on a definitive agreement with Cipher Pharmaceuticals Inc. (“Cipher”) for the sale of the Business. These carve-out financial statements have been prepared to present the acquired business separately from the remaining business of Parent.

(2) Basis of Presentation

The Business has historically operated as part of Parent and not as a standalone company. The accompanying carve-out financial statements represent the historical operations of Parent’s marketing and distribution business and have been derived from Parent’s historical accounting records. The carve-out financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). All revenues and costs as well as assets and liabilities directly associated with the business activity of the Business are included in the financial statements. The financial statements also include allocations of certain general, administrative, research and regulatory, and depreciation costs from Parent. Amounts recognized by the Business are not necessarily representative of the amounts that would have been reflected in the financial statements had the Business operated independently of Parent. For additional information related to costs allocated to the Business by Parent, see Note 6. Related party allocations are discussed further in Note 7.

Net Parent Investment

Net parent investment represents Parent’s interest in the recorded net assets of the Business. All significant transactions between the Business and Parent have been included in the accompanying financial statements. Transactions with Parent are reflected in the accompanying statements of changes in invested equity as “Net transfers to parent” and in the accompanying balance sheets within “Net parent investment.”

Liquidity and Capital Resources

As part of Parent, the Business is dependent upon Parent for all its working capital and financing requirements as Parent uses a centralized approach to cash management and financing of its operations. Financial transactions relating to the Business are accounted for through the Net parent investment account. Accordingly, none of Parent's cash or cash equivalents at the corporate level have been assigned to the Business in the financial statements.

(3) Summary of Significant Accounting Policies

Cash

Cash is centrally managed. Transfers of cash, both to and from Parent's centralized cash management system are reflected as a component of net parent investment in the balance sheets and as a financing activity in the accompanying statements of cash flows. As a result, the Business does not have a cash balance reflected on the balance sheets as of December 31, 2023, or December 31, 2022.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue, and expenses as well as certain financial statement disclosures. Actual results could differ from those estimates, and these differences could be material. Significant estimates relate primarily to the realizability of accounts receivable, revenue recognition, the provision for Medicaid rebates, and inventory assessment of lower of cost and net realizable value. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate.

Accounts Receivable, net and Allowance for Expected Credit Losses

The Business's accounts receivable is reported net of chargebacks, varies in terms, and become due periodically. The Business evaluated its allowance for expected credit losses as of December 31, 2023 and December 31, 2022, and determined no allowance was necessary, by considering a number of factors including: the length of time accounts receivable are past due, the Business's previous loss history, the condition of the general economy and industry as a whole, and other factors such as forward-looking information on macroeconomic factors that may affect customers' abilities to pay. If the financial condition of the Business's customers were to deteriorate in such a way as to impair their ability to make payments, allowances may be required. The Business has not recorded any allowance for credit losses for the year ended December 31, 2023 (2022 – nil).

Inventory

Inventory, consisting of raw materials and finished goods, is valued at the lower of cost and net realizable value, under the first-in first-out ("FIFO") costing method. Management has not recorded an allowance for excess, obsolete and saleable inventories based on management's qualitative assessment and review of inventory on hand.

Concentration Risk

A substantial portion of the Business's net revenue is made to three customers. Sales to these customers approximated 89% of total revenue respectively for the year ended December 31, 2023 (2022 – 88%) and comprised approximately 92% of the total accounts receivable balance as of December 31, 2023 (2022 – 90%).

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over estimated useful lives. Useful lives used in the computation of depreciation and amortization are 3 years for computers and software, 2 to 9 years for furniture and fixtures, and the lesser of the lease term or life of the asset for leasehold improvements.

The Business periodically evaluates facts and circumstances to determine if the carrying value of depreciable assets to be held and used may not be recoverable. Upon retirement or disposal of assets, the cost and related accumulated depreciation and amortization are removed from the accounts and gain or loss, if any, is reflected in the statements of operations. Repair and maintenance costs that do not increase the useful lives and/or enhance the value of the assets are expensed as incurred.

Income Taxes

The Business under Parent is organized as a limited liability company whereby, for federal income tax and most state income tax purposes, the Business has elected to be treated as a partnership. Therefore, its taxable income and losses pass through to its members for inclusion in their respective income tax returns. The Business is also subject to state-required fees and gross receipt taxes as a limited liability company, which were included in selling, general and administrative expenses in the accompanying statements of operations.

Leases

The Business leases office space, which has been classified as an operating lease, and a fleet of vehicles, which have been classified as finance leases. The Business determines if an arrangement is or contains a lease at the lease inception date by evaluating whether the arrangement conveys the right to use an identified asset and whether the Business obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Leases with an initial term of twelve months or less are not recorded on the balance sheets.

At the lease commencement date, the Business recognizes a lease liability and right-of-use (“ROU”) asset, representing its right to use the underlying asset over the lease term. The initial measurement of the lease liability is calculated based on the present value of the remaining lease payments and the ROU asset is measured on the basis of this liability, adjusted by prepaid and accrued rent, lease incentives, and initial direct costs. The subsequent measurement of a lease is dependent on whether the lease is classified as an operating lease or a finance lease. Operating lease cost is recognized on a straight-line basis over the lease term, with the cost presented as a component of selling, general, and administrative expenses in the accompanying statements of operations. Finance lease cost is comprised of a separate interest component and amortization component and is presented in the interest expense and depreciation and amortization line items, respectively, in the accompanying statements of operations.

The Business’s leases require other payments such as costs related to service components, real estate taxes, common area maintenance, and insurance. The Business has elected the package of practical expedients and has made the accounting policy election to not separate lease and non-lease components by underlying class for vehicles leases. The Business has elected to separate lease and non-lease components for the office lease class with non-lease components associated with the lease expensed in the period incurred and presented and disclosed as other lease costs. The Business’s lease agreements do not contain any material residual value guarantees or material restrictive financial covenants.

The Business accounts for its leases under Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“Topic 842”). As of the application date of Topic 842, the Business’s leases have remaining terms ranging from 1 to 5 years, with some of those leases including options that grant the Business the ability to renew or extend the lease term. When determining the lease term, the Business does not include renewal options unless the renewals are deemed to be reasonably certain of being exercised at the lease commencement date.

Topic 842 requires that a lessee use the rate implicit in the lease when measuring the lease liability and ROU asset, unless that rate is not readily determinable. Alternatively, the Business is permitted to use its incremental borrowing rate which is defined as the rate of interest that the Business would have to pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. For its vehicles leases, the Business uses the rate implicit in the lease, as the rate is also stated by the lessor. Because the Business's office lease does not provide an implicit rate, the Business used the risk-free discount rate accounting policy election by class of underlying asset at the lease commencement date in determining the present value of lease payments. The risk-free discount rate is calculated by utilizing the daily treasury yield curve rates, as published by the U.S. Department of the Treasury. This election is available to non-issuer companies as permitted by ASC 842-20-30-3.

Revenue Recognition

Revenues are recognized when control of the promised goods are transferred to our customers, in an amount that reflects the consideration that the Business expects to receive in exchange for those goods in accordance with Accounting Standards Codification (ASC) *606, Revenue from Contracts with Customers.*

The Business generates revenue from selling Natroba and Spinosad compounds to our customers. The Business applies the following five-step approach to determine the timing and amount of revenue recognition: (1) identify the contract with the customer, (2) identify performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the performance obligation is satisfied.

The Business's payment terms are typically between 30 to 90 days. Provisions for certain rebates, chargebacks, product returns, and discounts to customers are accounted for as variable consideration and recorded as a reduction in net revenue. Chargebacks are recorded as a reduction to accounts receivable net. The remaining types of variable consideration are recognized as liabilities within accrued expenses on the accompanying balance sheets.

Rebates are estimated based on contractual terms, historical experience, trend analysis, and projected market conditions in the various markets served. All of the Business's rebates are from the sale of Natroba and Spinosad products under the Medicaid program. The Business 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 information.

Chargebacks represents contractual arrangements with various end customers that specify discount pricing for their products. The difference between the wholesale price paid by the Business's wholesale customers and their end customer is the chargeback amount. Chargebacks are recorded based on the number of chargeback claims attributable to sales for each period.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including consideration of competitor pricing. Discounts are recorded at the time of sale based on the contractual terms of each revenue contract.

Sales returns are estimated and recorded based on historical sales and returns information. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The Business's sales returns reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. In accordance with the Business's accounting policies, the Business issues a credit to customers for returned goods.

Revenue from product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when the Business transfers control of the product and when payment is received will be one year or less. The Business generally ships products shortly after orders are received; therefore, the Business generally only has a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. These costs are recognized in cost of products sold in the accompanying statements of operations. The Business does not charge any taxes as all customers are authorized resellers.

In certain cases, the Business uses independent agents to sell its products. These sales are recorded on a gross revenue basis, as the Business is the primary obligor in these transactions, bears general inventory and credits risks and sets the pricing terms with its customers.

Disaggregation of Revenues

The Business has determined that disaggregating revenue into these categories provides appropriate disclosure and achieves associated objectives to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The disaggregation of net revenue by type of product is provided below.

Net Revenue by Product	**Year Ended December 31, 2023**	**% of Total**	**Year Ended December 31, 2022 (Unaudited)**	**% of Total**
Natroba	$ 16,081	56%	$ 12,576	51%
Spinosad	12,529	44%	12,184	49%
Net Revenue	28,610	100%	24,760	100%

Performance Obligations

The Business has elected the practical expedient under Topic 606 to utilize the portfolio method, which allows companies to account for contracts with similar characteristics as a portfolio. At the inception of each contract, the Business assesses the goods and services promised in the contract and identifies each distinct performance obligation. To identify the performance obligations, the Business considers all goods or services promised regardless of whether they are explicitly stated or implied within the contract or by standard business practices. The Business determined that the sale of the Natroba and Spinosad compounds represents a single performance obligation. This includes the packing and shipping of product through either delivery to the distributor or direct delivery to the non-distributor end-consumer. Additionally, the Business has elected to account for shipping and handling as activities to fulfill the promise to transfer the product even if the shipping and handling activities are performed after the customer obtains control. The Business does not evaluate whether shipping and handling activities are promised services to its customers. The Business applies this accounting policy election consistently to similar types of transactions.

Revenue is recognized when control is transferred. Determining when control transfers requires judgments that affect the timing of revenue recognized. All revenue is recognized when risk and title of the inventory transfers to the customer. Generally, revenue is recognized at a point-in-time when the shipment is delivered and accepted by the customer. At this time, the customer is able to direct the use of the product and obtains substantially all of the benefits and risks from the product or service. The Business has a present right to payment at that time, the customer has legal title to the product, and the Business has transferred physical possession.

Contract Assets and Liabilities

A contract asset is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, but where the right to payment is conditional on something other than the passage of time. As the Business recognizes all of their revenue at a point-in-time and the Business's right to payment is unconditional except for the passage of time no contract assets have been recorded for the years ended December 31, 2023 (2022 – nil).

A contract liability is defined as an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. It represents the Business's obligation to deliver products or services for which the customer has already paid or for which payment is due. As customers of the Business do not pay in advance for goods and the Business's obligation to deliver its products is fully satisfied upon delivery, no contract liabilities have been recorded for the years ended December 31, 2023 (2022 – nil).

Cost of Products Sold

Cost of products sold primarily consists of product costs, freight costs and distribution fees.

Research and Development

Research and development costs are expensed as incurred in accordance with ASC 730, Research and Development. Research and development costs consist of expenses incurred in performance research and development activities, included but not limited to, compensation and benefits, clinical trial expense, and fees paid to contract research organizations.

Advertising

General advertising costs are charged to selling, general and administrative expense when incurred. For the year ended December 31, 2023, general advertising costs were $2,655 (2022 - $3,070).

Adoption of New Accounting Pronouncements

In February 2016, the FASB issued ASC 2016-02, *Leases (Topic 842)*, as amended, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a ROU model that requires a lessee to recognize an ROU assets and lease liability on the balance sheets for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of operations.

The Business adopted the new standard on January 1, 2022, using the modified retrospective approach. Upon adoption, the Business recognized operating lease ROU assets and lease liabilities and finance lease ROU assets lease liabilities of $249 and $475 respectively.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which changes how entities measure credit losses on financial instruments and the timing of when such losses are recognized by utilizing a lifetime expected credit loss measurement. In November 2019, the FASB amended the guidance by issuing ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The guidance is effective for nonpublic entities for years beginning after December 15, 2022. The Business adopted this guidance on January 1, 2022. Given the short-term nature of the receivables and minimal expected credit losses, the adoption of this guidance did not have a material impact on the accompanying financial statements and related disclosures.

(4) Inventory

Inventory consists of the following as of December 31, 2023 and 2022:

	December 31,	
	2023	2022 (Unaudited)
Raw Materials	$ 2,314	$ 1,666
Finished Goods	1,049	1,271
Total Inventory	$ 3,363	$ 2,937

(5) Property and Equipment

Property and equipment consists of the following as of December 31, 2023, and 2022:

	December 31,	
	2023	2022 (Unaudited)
Computer & Software	$ 129	$ 129
Furniture & Fixtures	109	109
Leasehold Improvements	68	68
Less: accumulated depreciation	$ (242)	$ (201)
Total property and equipment, net	$ 64	$ 105

Depreciation expense for years ended December 31, 2023, and 2022 was $41 (2022 - $40) and is included in depreciation and amortization expense in the statements of operations.

(6) Allocation of Corporate Expenses

The accompanying statements of operations includes corporate expense allocations for services provided by Parent. The corporate expenses that were allocated include expenses incurred for sales and marketing, information technology, finance, accounting, legal, real estate and facilities, human resources, procurement, and other corporate and infrastructure functions. These expenses have been allocated to the Business based on usage or benefit when specifically identifiable. The remainder were allocated using allocation methods based on headcount or other systematic measures based on the nature of the costs. Examples of the expenses may include officer and employee salaries, computer software expenses, other selling, and general and administrative expenses.

During the year ended December 31, 2023, expenses of $2,184 (2022 - $2,776) were allocated from Parent, and are primarily included within selling, general, and administrative expenses in the accompanying statements of operations.

Management believes the assumptions underlying our financial statements, including the assumptions regarding the allocation of expenses are reasonable. The allocations of corporate expenses may not be indicative of actual costs for services or what the Business would have incurred on a stand-alone basis during the periods presented and may not reflect our results of operations, financial position and cash flows had we operated as a standalone company during the periods presented.

(7) Related Parties

The Business has entered into an office lease agreement with an affiliate of Parent. Specifically, Parent's holding company wholly owns the lessor in the Business's only office lease. The office lease is for a term of five years. The Business has no outstanding balances with the related party as of December 31, 2023 (2022 – nil). All operating lease expense during each year was incurred with the related party. See Note 10 for further detail on operating lease expense for each year.

(8) Net Parent Investment

Parent's invested equity in the Business is presented as net parent investment on the accompanying balance sheets. The accompanying statements of changes in invested equity include net transfers to and from Parent. Parent performs centralized treasury functions for which the Business's cash is all maintained in Parent owned bank accounts and Parent pays expenses on the Business's behalf.

Net parent investment includes the following:

- Corporate allocations including payroll and employee benefits, use of facilities and other general corporate and operating expenses that are deemed effectively settled; and

- Other assets, liabilities, revenues, and expenses recorded by Parent that have been pushed down to the Business as such amounts are directly attributable to the Business's operations.

Net transfers to and from Parent are included within net parent investment in the accompanying statement of changes in invested equity. All intercompany transactions effected through net parent investment in the accompanying balance sheets have been considered as cash receipts or payments for purposes of the accompanying statements of cash flows and are reflected in financing activities.

(9) Accrued Liabilities

Accrued liabilities consist of the following as of December 31, 2023, and 2022:

	December 31,	
	2023	**2022**
		(Unaudited)
Accrued Rebates, Discounts and Returns	$ 14,885	$ 13,099
Accrued Distribution Service Agreement Fees	1,460	1,447
Accrued Compensation and Related	702	558
Accrued Other	185	472
Total Accrued Liabilities	$ 17,232	$ 15,576

(10) Leases

The Business leases office space from a related party, and vehicles through a master leasing arrangement with a vehicle fleet provider. The leases are non-cancelable and expire on various terms through October 2027. The following tables present information about and the components of our right-of-use assets and liabilities related to leases and their classification in the accompanying balance sheets as of December 31, 2023, and 2022.

The components of lease costs for the years ended December 31, 2023, and 2022 were as follows:

	December 31, 2023	December 31, 2022 (Unaudited)
Operating lease costs	$ 62	$ 74
Finance lease costs:		
Amortization of right-of-use assets	217	242
Interest on lease liabilties	13	13
Other lease costs:	148	180
Total Lease expense	$ 440	$ 509

The following table includes the weighted-average lease terms and discount rates of operating and finance leases as of December 31, 2023, and 2022:

	December 31, 2023	December 31, 2022 (Unaudited)
Weighted average remaining lease term (in years):		
Operating leases	3.8	4.8
Finance leases	2.2	1.3
Weighted average discount rate		
Operating leases	4.1%	4.1%
Finance leases	6.7%	4.1%

Maturities of operating and finance leases were as follows:

Year ended December 31, 2023

	Operating Lease	Finance Lease	Total
2024	$ 54	$ 149	$ 203
2025	55	104	159
2026	57	49	106
2027	44	-	44
Total Lease Payments	210	302	512
Less: Liability accrection / imputed interest	16	22	37
Total Lease liabilities	195	280	475
Less: Current lease liabilities	47	135	182
Total long-term lease liabilities	$ 148	$ 145	$ 293

(11) Retirement Plans - 401(k) Plans

Parent maintains employee savings plans under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to make tax-deferred contributions of any percentage of their eligible pay, subject to certain IRS limitations. Contributions are typically made by the Business to the 401(k) plans based on specified percentages of eligible employee contributions but may also include discretionary contributions. Contributions are fully and immediately vested. Expenses recorded for the Business's contributions totaled $322 for the year ended December 31, 2023 (2022 - $212), which is included in selling, general and administrative expenses and based on employees specific to the Business and allocated cost of shared employees based on division of labor between the Business and Parent.

(12) Commitments and Contingencies

From time to time, the Business may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2023, and 2022, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Business's operations. There are also no legal proceedings in which any of the Business's management or affiliates is an adverse party or has a material interest adverse to the Business's interest.

The Business had no other commitments or contingencies as of December 31, 2023 (2022 – nil).

(13) Subsequent Events

The Business has reviewed and evaluated material subsequent events from the balance sheet date as of December 31, 2023 through October 9, 2024, the date on which the financial statements were issued.

On July 26, 2024, Parent executed an asset purchase and sale agreement with Cipher to sell the global product rights for lice and scabies topical drug Natroba and its generic form Spinosad, a commercial sales and marketing workforce, and other related assets. The asset purchase and sale agreement and related schedules lists the specific assets and liabilities within that will be conveyed or retained by Parent.

Concurrent with the sale, Parent entered into an Active Pharmaceutical Ingredient (API) supply agreement (the "Agreement") with Cipher. Per the Agreement, Parent and Cipher have entered into an exclusive supply arrangement whereby Cipher will source its API for Natroba and Spinosad exclusively from Parent, unless an alternative API supply is commercialized in an FDA approved product for human use with comparable quality, and certain other conditions are met.

SCHEDULE "B"
UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE ACQUIRED BUSINESS

See attached.

Natroba Commercial Operations

(A Carve-Out Business of ParaPRO, LLC)

Condensed Interim Financial Statements
(Unaudited)

For the Three and Six Months Ended June 30, 2024 & 2023

FINANCIAL STATEMENT SCHEDULES

Natroba Commercial Operations
Condensed Interim Balance Sheets
(in thousands of United States dollars)

	June 30, 2024	December 31, 2023
Assets		
Current assets		
Accounts receivable, net	$ 8,552	$ 9,654
Inventory *(Note 4)*	5,823	3,363
Prepaids and other current assets	455	531
Total current assets	14,830	13,548
Property and equipment, net	50	64
Operating lease right of use assets, net	168	192
Finance lease right of use assets, net	257	273
Total assets	$ 15,305	$ 14,077
Liabilities and Invested Equity		
Current liabilities		
Accounts payable	$ 1,817	$ 2,078
Accrued liabilities *(Note 8)*	14,132	17,232
Current portion of operating lease liabilities	49	47
Current portion of finance lease liabilities	129	135
Total current liabilities	16,127	19,492
Long-term operating lease liabilities	123	148
Long-term finance lease liabilities	136	145
Total liabilities	16,386	19,785
Commitments and contingencies *(Note 10)*		
Invested equity		
Net parent investment *(Note 7)*	(1,081)	(5,708)
Total invested equity	(1,081)	(5,708)
Total liabilities and invested equity	$ 15,305	$ 14,077

See accompanying notes to the condensed interim financial statements.

Natroba Commercial Operations
Condensed Interim Statements of Operations
(in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Net Revenue *(Note 3)*	$ 6,314	$ 6,921	$ 13,414	$ 13,386
Costs and expenses *(Note 5)*				
Cost of products sold	719	851	1,440	1,628
Selling, general and administrative	3,217	3,279	5,839	6,088
Research and development	12	-	12	-
Depreciation and amortization	49	76	96	148
Total costs and expenses	3,997	4,206	7,387	7,864
Interest expense	5	2	9	4
Net income	$ 2,312	$ 2,713	$ 6,018	$ 5,518

See accompanying notes to the condensed interim financial statements.

Natroba Commercial Operations
Condensed Interim Statements of Changes in Invested Equity
(in thousands of United States dollars)

	Three months ended June 30,		*Six months ended June 30,*	
	2024	**2023**	**2024**	**2023**
Beginning Balance	$ (2,729)	$ (2,885)	$ (5,708)	$ (4,305)
Net transfers to parent *(Note 7)*	(664)	(4,247)	(1,391)	(5,632)
Net Income	2,312	2,713	6,018	5,518
Ending Balance	$ (1,081)	$ (4,419)	$ (1,081)	$ (4,419)

See accompanying notes to the condensed interim financial statements.

Natroba Commercial Operations
Condensed Interim Statements of Cash Flows
(in thousands of United States dollars)

	Six months ended June 30,	
	2024	**2023**
Cash flows from operating activities		
Net Income	$ 6,018	$ 5,519
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	14	21
Amortization of finance lease assets	82	127
Changes in operating assets and liabilities		
Accounts receivable	1,102	(389)
Inventory	(2,460)	(907)
Prepaids and other current assets	76	250
Accounts payable	(261)	(1,270)
Accrued liabilities	(3,100)	2,411
Lease liabilities	10	5
Net cash provided by operating activities	1,481	5,767
Cash flows from financing activities		
Payments of finance leases	(90)	(135)
Net transfers to parent	(1,391)	(5,632)
Net cash used in financing activities	(1,481)	(5,767)
Net increase in cash	-	-
Cash balances		
Beginning of year	-	-
End of year	$ -	$ -
Supplemental disclosures of cash flow information		
Cash paid for finance lease interest	$ 9	$ 4
Leased assets obtained in exchange for new finance lease liabilities	66	129

See accompanying notes to the condensed interim financial statements.

Natroba Commercial Operations
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(in thousands of United States dollars)

(1) Description of the Business

Background and nature of operations

The accompanying condensed carve-out financial statements include the historical accounts of ParaPRO, LLC (“the Parent”, “ParaPRO”) that hold all the assets of, and operate the commercialized operations related to Natroba and Spinosad, herein collectively referred to as the “Natroba Commercial Operations” (“the Business”, “we”, "us", and “our”).

The Business specializes in the marketing and distribution of treatments for head lice and scabies infestations. The Business’s two products are Natroba, the propriety brand name formulation, and Spinosad, a generic equivalent product. Natroba and Spinosad are distributed nationally across retail pharmacies and specialty channels in the United States, primarily through long-term partnerships with major pharmaceutical wholesalers.

Sale of Natroba Commercial Operations

On July 26, 2024, the Parent closed on a definitive agreement with Cipher Pharmaceuticals Inc. (“Cipher”) for the sale of the Business. These carve-out financial statements have been prepared to present the acquired business separately from the remaining business of the Parent.

(2) Basis of Presentation

The Business has historically operated as part of Parent and not as a standalone company. The accompanying condensed carve-out financial statements represent the historical operations of Parent’s manufacturing and distribution business and have been derived from Parent’s historical accounting records. The condensed carve-out financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). All revenues and costs as well as assets and liabilities directly associated with the business activity of the Business are included in the condensed financial statements. The condensed financial statements also include allocations of certain general, administrative, research and regulatory, and depreciation costs from Parent. Amounts recognized by the Business are not necessarily representative of the amounts that would have been reflected in the condensed financial statements had the Business operated independently of Parent. For additional information related to costs allocated to the Business by the Parent, see Note 5. Related party transactions are discussed further in Note 6.

Net Parent Investment

Net parent investment represents Parent’s interest in the recorded net assets of the Business. All significant transactions between the Business and Parent have been included in the accompanying condensed financial statements. Transactions with Parent are reflected in the accompanying statements of changes in invested equity as “Net transfers to parent” and in the accompanying balance sheets within “Net parent investment.”

Liquidity and Capital Resources

As part of Parent, the Business is dependent upon Parent for all of its working capital and financing requirements as Parent uses a centralized approach to cash management and financing of its operations. Financial transactions relating to the Business are accounted for through the Net parent investment account.

Accordingly, none of Parent's cash or cash equivalents at the corporate level have been assigned to the Business in the condensed financial statements.

(3) Summary of Significant Accounting Policies

These financial statements should be read in conjunction with the Business's financial statements and notes thereto for the fiscal year ended December 31, 2023 (the "Annual Report"). There were no material changes in significant policies from those described in the Annual Report.

Cash

Cash is centrally managed. Transfers of cash, both to and from Parent's centralized cash management system are reflected as a component of net parent investment in the balance sheets and as a financing activity in the accompanying statements of cash flows. As a result, the Business does not have a cash balance reflected on the balance sheets as of any period.

Use of Estimates

The preparation of condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue, and expenses as well as certain financial statement disclosures. Actual results could differ from those estimates, and these differences could be material. Significant estimates relate primarily to the realizability of accounts receivable, revenue recognition, the provision for Medicaid rebates, and inventory assessment of lower of cost and net realizable value. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate.

Accounts Receivable, net and Allowance for Expected Credit Losses

The Business's accounts receivable is reported net of chargebacks, varies in terms, and become due periodically. The Business evaluated its allowance for expected credit losses as of June 30, 2024 and June 30, 2023, and determined no allowance was necessary, by considering a number of factors including: the length of time accounts receivable are past due, the Business's previous loss history, the condition of the general economy and industry as a whole, and other factors such as forward-looking information on macroeconomic factors that may affect customers' abilities to pay. If the financial condition of the Business's customers were to deteriorate in such a way as to impair their ability to make payments, allowances may be required. The Business has not recorded any allowance for credit losses for the three and six months ended June 30, 2024, and June 30, 2023.

Inventory

Inventory, consisting of raw materials and finished goods, is valued at the lower of cost and net realizable value, under the first-in first-out ("FIFO") costing method. Management has not recorded an allowance for excess, obsolete and saleable inventories based on management's qualitative assessment and review of inventory on hand.

Concentration Risk

A substantial portion of the Business's sales is made to three customers. Sales to these customers approximated 89% of total sales respectively for the three months ended June 30, 2024 (three months ended

June 30, 2023 – 89%) and sales to these customers approximated 88% of total sales respectively for the six months ended June 30, 2024 (six months ended June 30, 2023 - 89%).

Further, these customers comprised approximately 89% of the total accounts receivable balance as of June 30, 2024 (December 31, 2023 – 92%).

Disaggregation of Revenues

The Business has determined that disaggregating revenue into these categories provides appropriate disclosure and achieves associated objectives to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The disaggregation of net revenue by type of product is provided below.

	Three months ended **June 30, 2024**	**% of Total**	*Three months ended* **June 30, 2023**	**% of Total**
Net Revenue by Product				
Natroba	$ 3,727	59%	$ 4,052	59%
Spinosad	2,587	41%	2,869	41%
Net Revenue	$ 6,314	100%	$ 6,921	100%

	Six months ended **June 30,**	**% of Total**	*Six months ended* **June 30,**	**% of Total**
Net Revenue by Product				
Natroba	$ 7,955	59%	$ 7,659	57%
Spinosad	5,459	41%	5,726	43%
Net Revenue	$ 13,414	100%	$ 13,386	100%

(4) Inventory

Inventory consists of the following as of June 30, 2024 and December 31, 2023:

	June 30, 2024	**December 31, 2023**
Raw Materials	$ 5,241	$ 2,314
Finished Goods	582	1,049
Total Inventory	$ 5,823	$ 3,363

(5) Allocation of Corporate Expenses

The accompanying statement of income includes corporate expense allocations for services provided by the Parent. The corporate expenses that were allocated include expenses incurred for sales and marketing, information technology, finance, accounting, legal, real estate and facilities, human resources, procurement, advertising, and other corporate and infrastructure functions. These expenses have been allocated to the Business based on usage or benefit when specifically identifiable. The remainder were allocated using allocation methods based on headcount or other systematic measures based on the nature of the costs. Examples of the expenses may include officer and employee salaries, computer software expenses, other selling, and general, and administrative expenses.

During the three months ended June 30, 2024, expenses of $430 (three months ended June 30, 2023 - $710) were allocated from Parent and are primarily included within selling, general, and administrative expenses in the accompanying statements of operations.

During the six months ended June 30, 2024, expenses of $789 (six months ended June 30, 2023 - $1,250) were allocated from Parent.

Management believes the assumptions underlying the financial statements, including the assumptions regarding the allocation of expenses are reasonable. The allocations of corporate expenses may not be indicative of actual costs for services or what the Business would have incurred on a stand-alone basis during the periods presented and may not reflect our results of operations, financial position and cash flows had we operated as a standalone company during the periods presented.

(6) Related Parties

The Business has entered into an office lease agreement with an affiliate of the Parent. Specifically, the Parent's holding company wholly owns the lessor in the Business's only office lease. The office lease is for a term of five years. Further, expense from the Parent's lease with the Related Party has been allocated to the Business as part of the allocations described in Note 5. The Business has no outstanding balances with the related party as of June 30, 2024 (December 31, 2023 – nil).The Business recognized $16 in operating lease expense from the leases with the related party for the three months ended June 30, 2024 (three months ended June 30, 2023 - $16) and recognized $31 in operating lease expense from the leases with the related party for the six months ended June 30, 2024 (six months ended June 30, 2023 - $31).

(7) Net Parent Investment

Parent's invested equity in the Business is presented as net parent investment on the accompanying balance sheet. The accompanying statements of changes in invested equity include net transfers to and from Parent. Parent performs centralized treasury functions for which the Business's cash is all maintained in Parent owned bank accounts and Parent pays expenses on the Business's behalf.

Net parent investment includes the following:

- Corporate allocations including payroll and employee benefits, use of facilities and other general corporate and operating expenses that are deemed effectively settled; and

- Other assets, liabilities, revenues, and expenses recorded by Parent that have been pushed down to the Business as such amounts are directly attributable to the Business's operations.

Net transfers to and from Parent are included within net parent investment in the accompanying statement of changes in invested equity. All intercompany transactions effected through net parent investment in the accompanying balance sheet has been considered as cash receipts or payments for purposes of the accompanying statement of cash flows and are reflected in financing activities.

(8) Accrued Liabilities

Accrued expenses and other liabilities consists of the following as of June 30, 2024, and December 31, 2023:

	June 30, 2024	December 31, 2023
Accrued Rebates, Discounts and Returns	$ 12,072	$ 14,885
Accrued Distribution Service Agreement Fees	1,355	1,460
Accrued Compensation and Related	470	702
Accrued Other	236	185
Total Accrued Liabilities	$ 14,132	$ 17,232

(9) Retirement Plans - 401(k) Plans

Parent maintains employee savings plans under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to make tax-deferred contributions of any percent up of their eligible pay, subject to certain IRS limitations. Contributions are typically made by the Business to the 401(k) plans based on specified percentages of eligible employee contributions but may also include discretionary contributions. Contributions are fully and immediately vested. Expenses recorded for the Business's contributions totaled $69 for the three months ended June 30, 2024 (three months ended June 30, 2023 - $68). which is included in selling, general and administrative expenses. Expenses recorded for the Business's contributions totaled $96 for the six months ended June 30, 2024 (six months ended June 30, 2023 - $158) which is included in selling, general and administrative expenses and based on employees specific to the Business and allocated cost of shared employees based on division of labor between the Business and Parent.

(10) Commitments and Contingencies

From time to time, the Business may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2024 and December 31, 2023, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Business's operations. There are also no legal proceedings in which any of the Business's management or affiliates is an adverse party or has a material interest adverse to the Business's interest.

The Business had no other commitments or contingencies as of June 30, 2024 (December 31, 2023 – nil).

(11) Subsequent Events

The Business has reviewed and evaluated material subsequent events from the balance sheet date as of June 30, 2024 through October 9, 2024, the date on which the financial statements were issued.

On July 26, 2024, Parent executed an asset purchase and sale agreement with Cipher to sell the global product rights for lice and scabies topical drug Natroba and its generic form Spinosad, a commercial sales and marketing workforce, and other related assets. The asset purchase and sale agreement and related schedules lists the specific assets and liabilities within that will be conveyed or retained by Parent.

Concurrent with the sale, Parent entered into an Active Pharmaceutical Ingredient (API) supply agreement (the “Agreement”) with Cipher. Per the Agreement, Parent and Cipher have entered into an exclusive supply arrangement whereby Cipher will source its API for Natroba and Spinosad exclusively from Parent, unless an alternative API supply is commercialized in an FDA approved product for human use with comparable quality, and certain other conditions are met.

SCHEDULE "C"
UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF THE COMPANY

See attached.

Cipher Pharmaceuticals Inc.

Pro forma consolidated financial statements
Unaudited

June 30, 2024

Cipher Pharmaceuticals Inc.

Pro Forma Consolidated Statement of Financial Position

(Unaudited)

As at June 30, 2024

(in thousands of United States dollars)

	Cipher Pharmaceuticals Inc. $	Natroba Commercial Operations $	Pro Forma Adjustments $	Note	Pro Forma Consolidated $
Assets					
Current assets					
Cash and cash equivalents	47,984	—	(40,402)	3(a), 3(b)	7,582
Accounts receivable	3,776	8,552	(8,552)	3(a)	3,776
Inventory	2,898	5,823	(3,220)	3(a)	5,501
Prepaid expenses and other assets	301	455	(185)	3(a)	571
Total current assets	54,959	14,830	(52,359)		17,430
Property and equipment, net	369	307	(14)	3(a)	662
Operating lease right-of-use assets, net	—	168	(168)	3(c)	—
Intangible assets, net	1,244	—	86,591	3(a)	87,835
Goodwill	15,706	—	—		15,706
Deferred tax assets	21,632	—	—		21,632
Other non-current assets	—	—	402	3(b)	402
Total assets	93,910	15,305	34,452		143,667
Current liabilities					
Accounts payable and accrued liabilities	4,308	15,949	(15,949)	3(a)	4,308
Contract liability	510	—	—		510
Current portion of lease obligation	96	178	(49)	3(c), 3(d)	225
Total current liabilities	4,914	16,127	(15,998)		5,043
Lease obligation	200	259	(131)	3(c), 3(d)	328
Long-term debt	—	—	40,000	3(a)	40,000
Total liabilities	5,114	16,386	23,871		45,371
Shareholders’ equity					
Share capital	18,423	—	9,500	3(a)	27,923
Contributed surplus	5,862	—	—		5,862
Accumulated other comprehensive loss	(9,514)	—	—		(9,514)
Retained earnings/net parent investment	74,025	(1,081)	1,081	3(a)	74,025
Total shareholders’ equity	88,796	(1,081)	10,581		98,296
Total liabilities and shareholders’ equity	93,910	15,305	34,452		143,667

The accompanying notes are an integral part of these pro forma consolidated financial statements.

Cipher Pharmaceuticals Inc.

Pro Forma Consolidated Statement of Income and Comprehensive Income

(Unaudited)

For the six months ended June 30, 2024

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

	Cipher Pharmaceuticals Inc. $	Natroba Commercial Operations $	Pro Forma Adjustments $	Note	Pro Forma Consolidated $
Revenue					
Licensing revenue	4,218	—	—		4,218
Product revenue	6,953	13,414	—		20,367
Net revenue	11,171	13,414	—		24,585
Operating expenses					
Cost of products sold	2,161	1,440	—		3,601
Research and development	—	12	—		12
Depreciation and amortization	581	96	4,806	4(a)	5,483
Selling, general and administrative	3,069	5,839	153	4(b), 4(c)	9,061
Total operating expenses	5,811	7,387	7,799		18,157
Other (income) expenses					
Interest (income) expense	(1,166)	9	2,492	4(d), 4(e)	1,335
Unrealized foreign exchange loss (gain)	1,043	—	—		1,043
Total other (income) expenses	(123)	9	2,492		2,378
Income before income taxes	5,483	6,018	(7,451)		4,050
Current income tax expense	—	—	805	4(f)	805
Deferred income tax recovery	(2,435)	—	—		(2,435)
Total income tax (recovery) expense	(2,435)	—	805		(1,630)
Net income and comprehensive income for the period	7,918	6,018	(8,256)		5,680
Income per share					
Basic income per share	0.33				0.22
Basic weighted average number of outstanding shares	24,053,902		1,474,097	4(g)	25,527,999
Diluted income per share	0.32				0.22
Diluted weighted average number of outstanding shares	24,498,986		1,474,097	4(g)	25,973,083

The accompanying notes are an integral part of these pro forma consolidated financial statements.

Cipher Pharmaceuticals Inc.

Pro Forma Consolidated Statement of Income and Comprehensive Income

(Unaudited)

For the year ended December 31, 2023

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

	Cipher Pharmaceuticals Inc. $	Natroba Commercial Operations $	Pro Forma Adjustments $	Note	Pro Forma Consolidated $
Revenue					
Licensing revenue	8,483	—	—		8,483
Product revenue	12,679	28,610	—		41,289
Net revenue	21,162	28,610	—		49,772
Operating expenses					
Cost of products sold	4,069	3,498	—		7,567
Research and development	139	73	—		212
Depreciation and amortization	1,227	258	9,622	4(a)	11,107
Selling, general and administrative	5,694	11,486	295	4(b), 4(c)	17,475
Total operating expenses	11,129	15,315	9,917		36,361
Other (income) expenses					
Interest (income) expense	(1,870)	13	4,522	4(d), 4(e)	2,665
Unrealized foreign exchange loss (gain)	(778)	—	—		(778)
Total other (income) expenses	(2,648)	13	4,522		1,887
Income before income taxes	12,681	13,282	(14,439)		11,524
Current income tax (recovery) expense	(4,965)	—	1,717	4(f)	(3,248)
Deferred income tax recovery	(2,737)	—	—		(2,737)
Total income tax (recovery) expense	(7,702)	—	1,717		(5,985)
Net income and comprehensive income for the year	20,383	13,282	(16,156)		17,509
Income per share					
Basic income per share	0.82				0.66
Basic weighted average number of outstanding shares	25,004,838		1,474,097	4(g)	26,478,935
Diluted income per share	0.80				0.65
Diluted weighted average number of outstanding shares	25,422,202		1,474,097	4(g)	26,896,299

The accompanying notes are an integral part of these pro forma consolidated financial statements.

(in thousands of United States dollars)

1. Description of transaction

On July 26, 2024, Cipher Pharmaceuticals Inc. (“Cipher”) and its subsidiary, Cipher Pharmaceuticals US LLC (“Cipher US”) (together the “Company”), acquired from privately held ParaPRO, LLC (“ParaPRO”), the global product rights for (i) NATROBA™ (Spinosad) Topical Suspension, 0.9% and (ii) an authorized generic Spinosad Topical Suspension, each marketed, commercialized and distributed for the specific use of pediculosis capitis (head lice) and sarcoptes scabei (scabies) (collectively, the "Natroba Products"). In connection with the acquisition, the Company also acquired substantially all of the commercial assets of ParaPRO, LLC used in connection with the marketing, commercialization, distribution and sale of the Natroba Products including, the commercial sales team in the United States (“US”). The total purchase price was $89,500, comprising $80,000 paid in cash (satisfied from $40,000 cash on hand and $40,000 from a new credit facility) and the issuance of $9.5 million in common shares of Cipher (1,474,097 shares at a deemed issue price of CAD$8.91). The acquisition has been accounted for as a business combination.

In connection with the closing of the acquisition, the Company entered into a credit agreement with the National Bank of Canada (“National Bank”), for a $65,000 revolving credit facility. The Company received an initial drawdown of $40,000, which was used to fund a portion of the purchase price. Under the terms of the credit agreement, National Bank agreed to provide the Company with access to $65,000 through a revolving credit facility, plus an additional $25,000 through an optional accordion feature. The credit facility matures three years from closing and has an optional annual extension clause.

2. Basis of preparation

The unaudited pro forma consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board for inclusion in the Business Acquisition Report dated October 9, 2024. These pro forma consolidated financial statements are presented for illustrative purposes only and give effect to the acquisition by the Company pursuant to the assumptions and adjustments described herein. The unaudited pro forma consolidated statement of financial position as at June 30, 2024 is presented as if the acquisition occurred on June 30, 2024. The unaudited pro forma consolidated statements of income and comprehensive income for the six months ended June 30, 2024 and the year ended December 31, 2023 are presented as if the business acquisition occurred on January 1, 2024 and January 1, 2023, respectively.

The unaudited pro forma consolidated financial statements of the Company have been compiled from the following financial information:

- Audited financial statements of the Company for the year ended December 31, 2023 prepared in accordance with IFRS and presented in US dollars;

- Audited carve-out financial statements of the Natroba Commercial Operations (a carve-out business of ParaPRO, LLC) for the year ended December 31, 2023 prepared in accordance with US Generally Accepted Accounting Principles (“US GAAP”) and presented in US dollars;

- Unaudited financial statements of the Company for the six-month period ended June 30, 2024 prepared in accordance with IFRS and presented in US dollars; and

- Unaudited carve-out financial statements of the Natroba Commercial Operations (a carve-out business of ParaPRO, LLC) for the six-month period ended June 30, 2024 prepared in accordance with US GAAP and presented in US dollars.

(in thousands of United States dollars)

The conversion of the Natroba Commercial Operations (a carve-out business of ParaPRO, LLC) financial statements from US GAAP to IFRS has no material impact, except for:

- Lease accounting, whereby IFRS and US GAAP have differing treatment for certain types of leases. Under US GAAP ASC 842, leases may be classified as either a finance lease or an operating lease, depending on their characteristics, whereas under IFRS 16, all leases are classified as finance leases. This results in recognition on the statement of financial position and statement of income and comprehensive income, which differs between IFRS and US GAAP. IFRS 16 also contains certain exemptions for lease recognition, which result in differing treatment from US GAAP. However, due to the composition of the net assets acquired, combined with the lease terms for those Natroba Commercial Operations leases that would be considered operating leases under US GAAP and finance leases under IFRS, there was no US GAAP to IFRS conversion necessary. Refer to notes 3(c) and 4(c) for details.

The accounting policies used in the preparation of the pro forma consolidated financial statements are in accordance with those disclosed in the financial statements of the Company for the year ended December 31, 2023.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results or financial position that would have been achieved if the acquisition had actually occurred on the dates indicated or of the results or financial position of the Company that may be achieved in the future. The unaudited pro forma consolidated financial statements should be read in conjunction with the financial information referred to above.

3. Unaudited pro forma consolidated statement of financial position adjustments

a) The estimated purchase price allocation is as follows:

	$
Net assets acquired	
Inventory	2,603
Prepaid expenses and other assets	270
Property and equipment	36
Intangible assets	86,591
Consideration paid	89,500

The above allocation of the purchase price is preliminary. The Company continues to assess and review the fair values of the net assets acquired. Since the Company continues to finalize the valuation of assets acquired at the date of the acquisition, the allocation of the purchase price could vary significantly from the amounts used in these unaudited pro forma consolidated financial statements.

(in thousands of United States dollars)

The unaudited pro forma consolidated statement of financial position has been adjusted to reflect the preliminary purchase price allocation which required the following adjustments to the assets and liabilities of Natroba Commercial Operations and the Company:

	$
Accounts receivable	(8,552)
Inventory	(3,220)
Prepaid expenses and other assets	(185)
Property and equipment	(14)
Operating lease right-of-use assets, net	(168)
Intangible assets	86,591
Accounts payable and accrued liabilities	15,949
Current portion of operating lease liabilities	49
Long-term operating lease liabilities	131
Net parent investment	(1,081)
	89,500

The acquisition was financed as follows:

	$
Cash	40,000
Revolving credit facility	40,000
Issuance of commons shares	9,500
	89,500

b) In connection with the acquisition, the revolving credit facility for $65,000 was entered into by the Company with National Bank, of which $40,000 was drawn to fund a portion of the acquisition purchase price. Transaction costs of $402 that were incurred to enter into the credit agreement with National Bank have been included in other non-current assets in the unaudited pro forma consolidated statement of financial position and will be amortized over the term of the credit agreement.

c) The unaudited pro forma consolidated statement of financial position includes an adjustment to eliminate operating lease right-of-use assets of $168 and total operating lease liabilities of $172, of which $49 is the current portion and $123 is the long-term portion of the liabilities. The assets and liabilities are associated with an operating lease for office space that was entered into by Natroba Commercial Operations, which the Company did not assume in connection with the acquisition. Consequently, the operating lease right-of-use assets and operating lease liabilities were not included in the net assets acquired.

(in thousands of United States dollars)

d) The unaudited pro forma consolidated statement of financial position was adjusted for certain reclassifications related to Natroba Commercial Operations to conform to the historical presentation of the Company. A summary of the reclassifications made are as follows:

	Balance prior to reclassification $	Reclassification $	Revised balance $
Property and equipment, net	50	257	307
Finance lease right-of-use assets, net	257	(257)	—
Current portion of operating lease liabilities	49	(49)	—
Current portion of finance lease liabilities	129	(129)	—
Current portion of lease obligation	—	178	178
Long-term operating lease liabilities	123	(123)	—
Long-term finance lease liabilities	136	(136)	—
Lease obligation	—	259	259

4. Unaudited pro forma consolidated statements of income and comprehensive income adjustments

a) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to amortization of intangible assets by $4,806 and $9,622 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively. These amounts represent the amortization expense of the intangible assets described in note 3(a). The intangible assets are amortized on a straight-line basis, using an estimated useful life of 9 years.

b) The unaudited pro forma consolidated statements of income and comprehensive income include adjustments to selling, general and administrative expense in connection with the revolving credit facility, as follows:

- An increase to selling, general and administrative expenses by $32 and $64 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively, for the standby fees charged by National Bank on the undrawn portion of the revolving credit facility. Standby fees are charged at a rate of 0.25% on all undrawn amounts of the $65,000 total financing available under the revolving credit facility.

- An increase to selling, general and administrative expenses by $68 and $134 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively, for amortization of the deferred transaction costs incurred in connection with entering into the credit agreement with National Bank as described in note 3(b). The deferred transaction costs are amortized on a straight-line basis over the term of the credit agreement.

(in thousands of United States dollars)

c) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to increase selling, general and administrative expense by $53 and $97 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively. These amounts represent the rent payments associated with a lease for office space entered into by the Company in Carmel, Indiana, in connection with the acquisition. As described in note 3(c), the Company did not assume the lease for office space that was previously entered into by Natroba Commerical Operations prior to the acquisition, and as such, the Company required office space for the commercial sales team it acquired in the acquisition, as well as for use as the Company's US headquarters. Consequently, the Company entered into a new month-to-month lease for office space.

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 liability for the office space lease in the unaudited pro forma consolidated statement 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.

d) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to decrease interest income by $1,166 and $1,870 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively. These amounts represent the interest income earned by the Company on its cash and cash equivalents during the respective periods. As a result of the utilization of $40,000 in cash to fund a portion of the acquisition purchase price, as described in note 3(a), interest income would not have been earned on this portion of the cash and cash equivalents during the respective periods.

e) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to increase interest expense by $1,326 and $2,652 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively. The additional interest expense represents interest charged on the $40,000 drawn portion of the revolving credit facility, which bears an annual interest rate of SOFR plus 1.40%. The SOFR interest rate margin adjustment is subject to change based on the Company's leverage ratio.

f) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to increase current income tax expense by $805 and $1,717 for the six months ended June 30, 2024 and the year ended December 31, 2023, respectively. The current income tax expense is reflective of an effective combined US federal and state income tax rate of 30%, calculated on the residual taxable income of the Natroba Commercial Operations when consolidated with Cipher.

g) The unaudited pro forma consolidated statements of income and comprehensive income include an adjustment to increase basic weighted average number of outstanding shares and diluted weighted average number of outstanding shares by 1,474,097 shares to reflect the additional shares issued by Cipher to ParaPRO as consideration for a portion of the acquisition purchase price, as described in notes 1 and 3(a).