Building a Dermatology Growth Company

cipher™ PHARMACEUTICALS

2015 ANNUAL REPORT

In 2015 we made major strides to transform Cipher from a royalty business into an integrated **dermatology growth company**. Through multiple transactions, Cipher has built a solid commercial foundation in the U.S. and Canada, a growing portfolio of marketed products, and a robust pipeline of late-stage assets to drive organic growth.

SOLID COMMERCIAL FOUNDATION

JANUARY 2015	FEBRUARY 2015	MARCH 2015	APRIL 2015	MAY 2015
Acquired Canadian rights to Ozenoxacin Acquired the assets of Melanovus Oncology Inc.	Acquired worldwide rights to three products from Astion Pharma	Acquired Canadian distribution rights to CF101	Acquired INNOCUTIS Holdings, LLC	Acquired Canadian rights to Vaniqa® and Actikerall®

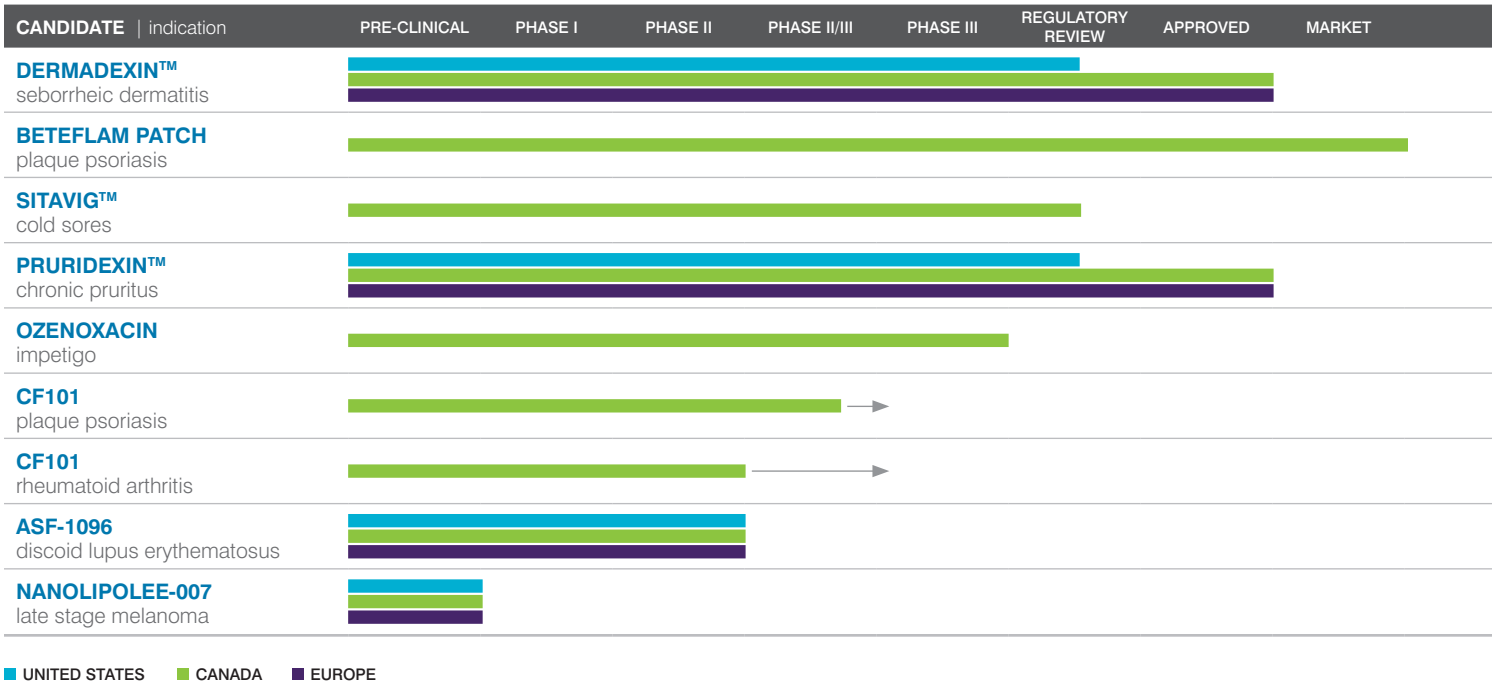
GROWING PRODUCT PORTFOLIO

Through our acquisitions in 2015, we have greatly expanded our commercial portfolio.

PRODUCT/BRAND	INDICATION	COMMERCIAL STATUS
ABSORICA®	Severe nodular acne	Marketed by Ranbaxy Laboratories, a Sun Pharma Company, in the U.S.
SITAVIG®	Recurrent Herpes Labialis	Marketed by Cipher in the U.S. Accepted for review by Health Canada in Q1 2016.
NUVAIL™ **BIONECT®** **CLN8™** **INOVA®** **PRO:12 MOUSSE™** **AL12™ LOTION** **UMECTA®** **ACLARO®**	Nail Dystrophy Dermal Ulcers Mild/Moderate Onychomycosis Acne Dry Skin Dry Skin Keratosis Hyperpigmentation	Marketed by Cipher in the U.S.
EPURIS® **VANIQA®** **ACTIKERALL®** **BETEFLAM™**	Severe nodular acne Enzyme inhibitor for hair growth Hyperkeratotic actinic keratosis Plaque psoriasis	Marketed by Cipher in Canada.
LIPOFEN®	High cholesterol	Marketed by Kowa Pharmaceuticals in the U.S.
CONZIP®	Once-daily treatment of moderately severe pain	Marketed by Vertical Pharmaceuticals in the U.S.
DURELA®	Once-daily treatment of moderately severe pain	Marketed by Aralez Pharmaceuticals in Canada.

ROBUST LATE-STAGE PIPELINE

We have a robust pipeline of late-stage products that are nearing commercialization. Based on our current portfolio, we are expecting nine launches from five products in 2016 and 2017.



LETTER TO SHAREHOLDERS

Dear Shareholders:

In 2015, we made major strides to transform Cipher from a royalty business to an integrated dermatology growth company. When we established the new growth strategy in 2014, our plan was to leverage our core capabilities, strong earnings and balance sheet to invest in building the most customer-centric dermatology company in North America.

Today, we are much closer to that goal. Having completed seven transactions in 2015, we have a solid commercial foundation in the U.S. and Canada, a portfolio of 13 directly marketed products and growing, and a robust pipeline of late-stage products that are nearing commercialization.

Clearly, achieving this vision requires time and it requires significant investments in our products and capabilities. Our ability to make these investments was strengthened with a favourable outcome last year on the litigation related to Absorica®, which gives us greater confidence and visibility on the significant cash flow from this product.

A key milestone in 2015 was the acquisition of INNOCUTIS Holdings, LLC, a privately held specialty dermatology company, which gave us a commercial presence in the U.S. Following the acquisition, our top priority was to generate growth in the lead products we acquired, led by Sitavig®, a breakthrough treatment for cold sores. Total Sitavig prescriptions grew 27% in Q4 2015 versus Q3 2015 and net sales increased by 122% over the same period in 2014. In 2016, we are pursuing several strategies to build awareness of Sitavig's superior clinical performance to continue this growth trajectory and increase market share. We've also made good progress with the two other key products we acquired, Nuvail® and Bionect. Overall, we are pleased the U.S. business has returned to growth. This growth will allow us to achieve our objective to make the Innocutis purchase accretive within two years.

It was a strong year for our Canadian business, highlighted by 80% organic growth in product revenue in local currency. Epuris®, our lead product for acne, reached over 21% market share. In addition, we launched Vaniqa® and it has performed well, contributing 20% of Canadian product revenue in fourth quarter. Expanding our Canadian commercial portfolio is a key

growth priority for the business, and we continue to execute on this plan. In December, Beteflam™, our novel treatment for plaque psoriasis, received Health Canada approval, and we launched the product in the first week of April 2016. Subsequent to year end, our new drug submission for Sitavig was accepted for review by Health Canada and we launched Actikerall® in January. In addition, Health Canada approved both Dermadexin™ and Pruridexin™. In total, we expect to have six products on the Canadian market in 2016 and eight in 2017.

These achievements translated into 18% revenue growth, from $29.2 million in 2014 to $34.4 million in 2015. While our licensing was down modestly to $26.0 million, from $27.4 million in 2014, product revenue increased to $8.4 million from $1.9 million in 2014, primarily due to the products we acquired in the U.S. and continued growth of our Canadian portfolio. Consistent with our long-term growth plan and expectations, our investment in the US products and capabilities has dampened profitability in the short term. However, even with our significant investment in growth opportunities, adjusted EBITDA in 2015 was $9.8 million and we generated net cash from operations, before working capital changes, of $10.2 million.

Altogether, we could add as many as 10 new revenue streams to our commercial portfolio within the next 18 months to drive growth.

Looking ahead, the business is well positioned for accelerated growth over the coming quarters based on the expected growth in our commercial products and the nine potential product launches in 2016. We started 2016 with 15 revenue streams, up from five at the start of last year. Altogether, we could add as many as 10 new revenue streams to our commercial portfolio within the next 18 months to drive growth. In addition, we have multiple other key regulatory and clinical milestones in 2016 as we advance our pre-commercial products and continue to diversify our portfolio.

I look forward to updating you during the year as we continue to advance our strategy to build a leading dermatology company in North America.

Sincerely,

“Signed”

Shawn Patrick O’Brien
President and Chief Executive Officer

April 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

The following is a discussion and analysis of the operating results and financial position of Cipher Pharmaceuticals Inc. and its subsidiaries ("Cipher" or "the Company") for the year ended December 31, 2015. This document should be read in conjunction with the audited consolidated financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Additional information about the Company, including the annual financial statements and Annual Information Form for the year ended December 31, 2015, is available on SEDAR at www.sedar.com and on EDGAR at http://www.sec.gov/edgar/searchedgar/companysearch.html.

The discussion and analysis within this MD&A are as of February 23, 2016.

Caution Regarding Forward-Looking Statements

This document includes forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and other provincial securities law in Canada and U.S. securities laws. These forward-looking statements include, among others, statements with respect to our objectives, goals and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "will", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "forecast", "objective", "hope" and "continue" (or the negative thereof), and words and expressions of similar import, are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. We caution readers not to place undue reliance on these statements as a number of important factors, many of which are beyond our control, could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to our ability to enter into in-licensing, development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect; our dependency on certain key products; integration difficulties and other risks if we acquire or in-license technologies or product candidates; reliance on third parties for the marketing of our products; the product approval process is highly unpredictable; the timing of completion of clinical trials; reliance on third parties to manufacture our products; we may be subject to product liability claims; unexpected product safety or efficacy concerns may arise; generate revenue from a limited number of distribution and supply agreements; the pharmaceutical industry is highly competitive; requirements for additional capital to fund future operations; dependence on key managerial personnel and external collaborators; no assurance that we will receive regulatory approvals in the U.S., Canada or any other jurisdictions; limitations on reimbursement in the healthcare industry; limited reimbursement for products by government authorities and third-party payor policies; various laws pertaining to health care fraud and abuse; reliance on the success of strategic investments and partnerships; the publication of negative results of clinical trials; unpredictable development goals and projected time frames; rising insurance costs; ability to enforce covenants not to compete; risks associated with the industry in which it operates; foreign currency risk; the potential violation of intellectual property rights of third parties; our efforts to obtain, protect or enforce our patents and other intellectual property rights related to our products; changes in U.S., Canadian or foreign patent law; litigation in the pharmaceutical industry concerning the manufacture and supply of novel versions of existing drugs that are the subject of conflicting patent rights; inability to protect our trademarks from infringement; shareholders may be further diluted; volatility of our share price; a significant shareholder; we do not currently intend to pay dividends; our operating results may fluctuate significantly; we may be unsuccessful in evaluating material risks involved in complete and future acquisitions; we may be unable to identify, acquire or integrate acquisition targets successfully; operations in the U.S.; and inability to meet covenants on our credit facilities.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When reviewing our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Additional information about factors that may cause actual results to differ materially from expectations, and about material factors or assumptions applied in making forward-looking statements, may be found in the "Risk Factors" section of our Annual Information Form and under "Business Risks" and elsewhere in the following Management's Discussion and Analysis of Operating Results and Financial Position for the year ended December 31, 2015, and elsewhere in our filings with Canadian and U.S. securities regulators. Except as required by Canadian or U.S. securities laws, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf; such statements speak only as of the date made. The forward-looking statements included herein are expressly qualified in their entirety by this cautionary language.

Change in presentation currency

Effective April 1, 2015, we changed our presentation currency from the Canadian dollar to the United States dollar. We believe that changing our presentation currency to U.S. dollars will result in more relevant and reliable information for our financial statement users, and will more accurately reflect the results of our operations. For the period ended March 31, 2015 and for all prior periods, we presented our financial statements in Canadian dollars. The comparative figures disclosed in our financial statements for the year ended December 31, 2015, and in this Management's Discussion and Analysis, have been retrospectively changed to reflect the change in presentation currency to the U.S. dollar, as if the U.S. dollar had been used as the presentation currency for all prior periods. All dollar figures are stated in U.S. dollars unless otherwise indicated.

Overview

Cipher Pharmaceuticals (NASDAQ:CPHR; TSX:CPH) is a rapidly growing specialty pharmaceutical dermatology company, with a robust and diversified portfolio of commercial and late-stage products. Cipher acquires first-in-class or best-in-class products and transformative compounds that fulfill high unmet medical needs. Our experienced management team has a proven track record of successfully managing the required clinical development and regulatory approval processes and marketing products either directly or through partners. Cipher is well-capitalized to drive sustained earnings growth by leveraging our proven clinical development capabilities and efficient commercial execution. With seven transactions announced in 2015 and significant regulatory progress, we are on pace to achieve our goal of expanding our Canadian dermatology franchise, building a U.S. commercial presence and ultimately, becoming the most customer-centric dermatology company in North America.

Growth Strategy

With a mandate to leverage Cipher's existing core capabilities, infrastructure and existing product portfolio (led by a novel version of the acne medication isotretinoin, which is marketed as Absorica® in the U.S. and Epuris® in Canada), in fiscal 2014 the Company implemented a three-pronged growth strategy, enabling its transformation from a royalty revenue company into a pure play dermatology company and significantly improving its long-term growth opportunities. The three components of the growth strategy are:

- Building a larger dermatology franchise in Canada through a combination of in-licensing and acquisitions (acquisitions would be accretive within two years);
- Acquiring and developing potentially transformative technology that can be commercialized efficiently in North America; and
- Establishing a commercial operation in the U.S. through M&A and build a leading dermatology franchise in that country.

In the second half of 2014, Cipher began delivering on its growth strategy, making strides towards achieving its vision of becoming the most customer-centric dermatology company in North America. To support this strategy, the Company listed its shares on NASDAQ (CPHR) in late November 2014.

Cipher completed seven transactions in 2015, acquiring 15 dermatology products, the majority of which are either commercial or late-stage pre-commercial, significantly expanding its product portfolio. These acquisitions support all three components of Cipher's growth strategy.

In January 2015, the Company announced the acquisition of seven pre-clinical compounds for the treatment of melanoma and other cancers from Melanovus Oncology, Inc. ("Melanovus"), including the related intellectual property from The Penn State Research Foundation. Shortly after this, we announced that Cipher had acquired the commercial rights for the novel antibacterial compound Ozenoxacin for the treatment of impetigo. In addition, in March of this year, Cipher licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite Biopharma ("Can-Fite") for moderate to severe plaque psoriasis and rheumatoid arthritis.

Cipher strengthened its product pipeline with the acquisition of the worldwide rights to three products from Astion Pharma, a Denmark-based specialty pharmaceutical company in Q1 2015. We believe the three products, namely Dermadexin™, Pruridexin™, and ASF-1096, will strengthen Cipher's dermatology product pipeline and, if approved, would present a sizable market opportunity. In Q3 2015, Cipher's 510(k) submissions for Dermadexin™ and Pruridexin™ were accepted for regulatory review by the U.S. Food and Drug Administration ("FDA"). Both products were also submitted to Health Canada for review as Natural Health Products.

In May 2015, we acquired the Canadian rights to Vaniqa® and Actikerall® from Almirall S.A, a Spanish pharmaceutical company. Both products have been approved by Health Canada and Vaniqa is currently on the market in Canada. We announced the Canadian launch of Actikerall on February 22, 2016.

In April 2015, we delivered on our strategic priority of establishing a U.S. commercial sales and marketing capabilities through the acquisition of Innocutis Holdings, LLC (“Innocutis”), a privately-held U.S. dermatology company. In addition to acquiring Innocutis’ nine branded dermatology products, led by Sitavig, a breakthrough treatment for cold sores launched in the U.S. in Q3 2014 with significant upside sales potential, Cipher plans to leverage the U.S. sales platform to launch its other recently acquired products into the U.S. market. Cipher has developed and is implementing an aggressive sales and marketing program to reverse the business decline and to accelerate the growth and maximize the potential sales of Sitavig and Nuvail in the U.S. In addition, on February 17, 2016 we announced the launch of Bionect Foam in the US.

Looking forward, we plan to continue on this growth trajectory as we focus on investing in the short-term to maximise the potential of our existing products, while at the same time, continuing to identify opportunities to acquire additional late stage dermatology products to further strengthen and deepen our existing product portfolio. We will also continue to leverage our regulatory approvals in the U.S. and Canada to pursue licensing agreements in other markets, where economically viable.

Acquisition of Innocutis and Debt Facility

On April 13, 2015, Cipher announced its U.S. commercial entry through the acquisition of Innocutis. Consideration for the acquisition was $45.5 million in cash, paid on closing. The agreement also includes additional Innocutis management incentive payments of up to $3.0 million in cash over a three-year period based on the achievement of certain financial performance targets. The first component of the incentive program, related to achievement of an EBITDA target in 2015, was not achieved and as a result the maximum that could be paid out in the future is $2.0 million. No amounts have been accrued as at December 31, 2015.

In conjunction with the Innocutis acquisition, Cipher closed on a private offering of $100 million in aggregate principal amount of Senior Secured Notes due 2020 (the "Notes"), provided by investment funds managed by Athyrium Capital Management (together, "Athyrium"). The Company received an initial drawdown of $40 million, which was used to fund the majority of the purchase price for Innocutis. The remaining balance of the Notes will be made available to finance future acquisitions and is available to Cipher up until June 30, 2016. The Notes bear interest at a fixed rate of 10.25% per annum, payable quarterly in arrears on the last day of each quarter, and will mature in five years, unless earlier repurchased. The Notes are interest-only and are secured by assets of the Company and its subsidiaries, subject to certain exceptions. The Notes have certain restrictive covenants, including quarterly consolidated net revenue, minimum cash balance and consolidated leverage ratio. The Company is in compliance with these covenants at December 31, 2015.

In connection with the offering, Cipher issued Athyrium 600,000 common share purchase warrants. The warrants are exercisable at $9.22 (equal to the five-day volume-weighted average price on the Toronto Stock Exchange prior to closing, converted to US dollars) and expire seven years following issuance.

Commercial Products Update

ABSORICA®/ EPURIS® (CIP-ISOTRETINOIN)

CIP-ISOTRETINOIN is an innovative formulation of the active ingredient isotretinoin, which is used in the treatment of severe acne. CIP-ISOTRETINOIN, which is based on the same oral Lidose® drug delivery system used with Lipofen, has been in-licensed from Galephar Pharmaceutical Research Inc. (“Galephar”). The Company's marketing rights to this product include the Americas and a majority of the Pacific Rim. CIP-ISOTRETINOIN provides more consistent absorption under fed and fasted conditions, as compared to existing isotretinoin products. Due to its high lipophilicity, oral absorption of isotretinoin is enhanced when given with a high-fat meal. CIP-ISOTRETINOIN is bioequivalent to Accutane® (isotretinoin) capsules when both drugs are taken with a high-fat meal. However, when both drugs are taken under fasted conditions, CIP-ISOTRETINOIN provides 83% greater absorption than Accutane (isotretinoin) capsules.

The product was launched by Cipher’s U.S. distribution partner Ranbaxy Laboratories Inc. (“Ranbaxy”) a Sun Pharma Company, in Q4 2012 under the trade name Absorica. The product has performed well since launch, achieving 18.1% market share by December 2015, based on total isotretinoin prescriptions (source: IMS). In 2014, Ranbaxy launched two new strengths of Absorica (25 mg and 35 mg) to provide further flexibility to physicians in the weight-based dosing of isotretinoin.

According to IMS, the U.S. isotretinoin market was over US$680 million in 2015, an increase of 8.1% over the prior year, with prescriptions growing by 8.6% on a year-over-year basis. Overall, Absorica prescriptions grew by 3.7% in 2015 compared to 2014 (source: IMS).

Absorica is currently protected by five issued patents which are listed in the FDA's Approved Drug Products List (Orange Book) which expire in September 2021. Cipher was issued a product patent (Patent Number 7,435,427) from the U.S. Patent and Trademark Office in 2008 with a second patent (Patent Number 8,367,102) issued in 2013. A third patent (Patent Number

8,952,064) was issued in February 2015 and the fourth and fifth patents (Patent Numbers 9,078,925 and 9,089,534) were issued in July 2015. The five patents are formulation-related patents describing the product ingredients. There is one additional new Absorica patent application pending with the U.S. Patent and Trademark Office.

In October 2015, the Company, along with Ranbaxy and Galephar, entered into a Settlement Agreement with Actavis Laboratories F1, Inc., Andrx Corp., Actavis, Inc. and Actavis Pharma, Inc. ("Actavis") that dismissed the patent litigation suit. As part of the Settlement Agreement, Cipher, Ranbaxy and Galephar entered into a non-exclusive license agreement with Actavis under which Actavis may begin selling its generic version of Absorica® in the U.S. on December 27, 2020 (approximately nine months prior to the expiration of the patents in September 2021) or earlier under certain circumstances.

CIP-ISOTRETINOIN was also approved by Health Canada in Q4 2012 under the trade name Epuris and Cipher launched the product in Canada in June 2013 with its own sales force. According to IMS, the Canadian market for isotretinoin in 2015 was CDN$17.5 million, an increase of 6.5% over 2014. Isotretinoin prescriptions in Canada for Q4 2015 increased by 8.5% compared to Q4 2014.

Epuris market share continues to grow in 2015 achieving a prescription market share of 21.3% as of December 2015 (source: IMS) compared with 15.5% in December 2014. In Q4 2015, Epuris prescriptions grew by over 50% over the prior year and feedback from the Canadian dermatology community continues to be encouraging.

LIPOFEN® (CIP-FENOFIBRATE)

Lipofen is a novel formulation of the active ingredient fenofibrate, which is used in the treatment of hyperlipidemia, a cholesterol disorder. Hyperlipidemia is a condition characterized by high levels of low-density lipoprotein (“LDL”) cholesterol and/or triglycerides (a type of fat found in the blood). Fenofibrate is known to lower LDL cholesterol and triglycerides and increase high-density lipoproteins (“HDL”), known as "good cholesterol". Fibrates have proven to be superior in lowering triglycerides and raising HDL levels. Lipofen was the first product from the Company’s pipeline to receive FDA approval. Cipher’s U.S. marketing and distribution partner for Lipofen is Kowa Pharmaceuticals America, Inc. (“Kowa”). The agreement with Kowa, which was executed in 2007, is for a period of ten years and they have the right to extend the term for two additional two-year periods.

According to IMS, the hyperlipidemia market in the U.S. exceeded US$12.6 billion in 2015 and is made up of three primary groups of drugs: statins, fibrates and the prescription DHA/EPA (omega 3) market. The market for existing fenofibrate formulations in the U.S. was US$1.0 billion during 2015, down from US$1.2 billion in the previous year.

Lipofen was launched in the U.S. market in late 2007 and prescriptions have grown as Kowa increased coverage of the primary care physicians in its targeted regions and expanded its sales force, which has grown to approximately 250 representatives. In Q2 2014, Cipher and Kowa agreed to pre-emptively launch an authorized generic version of Lipofen in advance of the expiration of the product patent in January 2015. Since the beginning of 2015, Kowa has reduced their commercial efforts significantly on the promotion of Lipofen. Prescriptions for Lipofen and the authorized generic were down 2% in Q4 2015 versus Q3 2015.

CONZIP® / DURELA® (CIP-TRAMADOL ER)

CIP-TRAMADOL ER is a novel, biphasic, extended-release formulation of the active ingredient tramadol, which is used for the management of moderate to moderately severe pain. CIP-TRAMADOL ER uses oral controlled-release beads, a drug delivery technology licensed from Galephar. The novel formulation delivers rapid absorption, similar absorption under different dietary conditions, and 24-hour coverage, supporting ease-of-use for physicians and a high level of compliance among chronic pain sufferers.

The product received FDA approval in 2010. In Q2 2011, Cipher entered into a distribution and supply agreement with Vertical Pharmaceuticals Inc. (“Vertical”), a U.S.-based specialty pharmaceutical company and the product was launched in the U.S. in September 2011 by under the trade name ConZip. Cipher receives a royalty on net sales in the mid-teens and is eligible to receive future sales milestone payments, contingent upon the achievement of certain future net sales targets. ConZip was launched with a dedicated sales force of 60 representatives which reached 75 representatives and in 2013, Avista Capital Partners, a U.S.-based private equity firm, acquired a controlling equity interest in Vertical. According to IMS, the U.S. market in 2015 for extended release formulations of tramadol exceeded US$60 million which represents 1.7% of the total tramadol immediate-release and extended-release prescription market. An authorized generic version of the product was launched by the Company in the U.S. market in July, 2015 through Vertical. Prescriptions for ConZip and the authorized generic were up 18% in Q4 2015 compared to Q3 2015. This resulted in a 41% increase in the combined sales of ConZip and the authorized generic tramadol ER in Q4 2015 compared to Q3 2015. Net revenue for Cipher in Q4 2015 was over $1 million, a more than two-fold increase over Q3 2015.

In Q3 2011, Cipher received Health Canada approval for CIP-TRAMADOL ER and completed a Canadian distribution and supply agreement with Medical Futures Inc. (“Medical Futures”). The product was launched in Canada in March 2012 under the trade name Durela. Cipher receives a double-digit royalty on net sales and is eligible to receive future milestone payments contingent

upon the achievement of cumulative net sales targets. Medical Futures launched the product in March 2012 with a dedicated sales force of 22 representatives. Durela net sales were up 11% in 2015 compared to the prior year. In June of 2015 Medical Futures was acquired by Tribute Pharmaceuticals Canada Inc. ("Tribute") who have increased their commercial effort on Durela and during the same month POZEN Inc. announced the acquisition of Tribute, which is now complete. Effective February 5, 2016, the new combined company is now named Aralez Pharmaceuticals Inc. According to IMS, the Canadian market for extended-release tramadol was approximately CDN$27 million in 2015, which was unchanged from 2014. Patents that expire in 2022 have been issued both in the U.S. and Canada for the product.

Commercial Products Acquired Through Innocutis

SITAVIG®

Sitavig, which was launched in July 2014, is a unique, timed-release, mucoadhesive buccal tablet containing 50 mg of acyclovir indicated for the treatment of herpes labialis (cold sores). Administration of a single Sitavig tablet enables the active ingredient to penetrate the surrounding tissues in significantly higher concentrations than is possible through systemic delivery. Sitavig is the only treatment for herpes labialis that is proven to increase the time between oral herpes outbreaks and decrease the number of oral herpes outbreaks.

While the prescription herpes labialis market is largely genericized, it is a sizable market opportunity for Cipher. If converted to branded Sitavig dollars the available market opportunity is $5.9 billion.

Cipher is pursuing several strategies to capitalize on this market opportunity and increase market penetration of Sitavig. Sitavig currently has a 16.1% share of the topical branded anti-viral therapies prescribed by dermatologists. Currently, 75% of the Sitavig TRxs come from Dermatology. Cipher is implementing an aggressive sales and marketing approach to enhance the Dermatology position. Historically, Cipher has only marketed to dermatologists, however, there is also a large non-dermatology component to the herpes labialis market. Cipher plans to broaden the potential of the product by expanding promotional efforts into other specialities and primary care, as well as using marketing, non-personal promotion and actively seeking partnerships to grow the non-dermatology market for Sitavig. Total Sitavig prescriptions grew 27% in Q4 2015 versus Q3 2015 and net sales grew by more than 100%.

NUVAIL®

Nuvail is a polymer solution (poly-ureaurethane) indicated for managing the signs and symptoms of nail dystrophy. The product is applied once-daily and dries with a clear matte finish.

The prescription nail dystrophy market is relatively small in the U.S. with $4.3 million in 2015 sales. Nuvail launched in June 2012 and in Q4 2015 achieved 65% share of the nail dystrophy market. Nuvail net revenue was up over 70% in Q4 2015 over Q3 2015 despite the fact that prescriptions decreased by 6% in the same period, reflecting the continued impact of two new topical onychomycosis ("OM") treatments which were launched in late 2014. OM and nail dystrophy are common comorbidities. It appears that the new OM treatments are competing with products indicated for nail dystrophy by only addressing the issue of fungus and not nail dystrophy. Cipher will focus on nail dystrophy which is often a pre-cursor to fungus infections. Nail dystrophy is seen in mycotic, psoriatic, and brittle nails. It is estimated that 20% of adults in the U.S. have Brittle Nail Syndrome.

BIONECT®

Bionect is a topical hyaluronic acid ("HA") indicated for the treatment of signs and symptoms of skin irritation. The topical hyaluronic market was approximately $2.8 million in 2015. Total prescriptions decreased by 16% in 2015 compared to 2014. Bionect maintained 93% topical HA market share in Q4 2015 with prescriptions growing by 5.5% in Q4 2015 versus Q3 2015. To enhance the brand positioning a new formulation of the product, Bionect Foam has been manufactured and was launched in January 2016.

Pre-Commercial Products

BETEFLAM PATCH

In Q3 2012, Cipher obtained exclusive license and distribution rights in Canada to market the Beteflam Patch (previously named the Betesil Patch), a novel, patent-protected, self-adhesive medicated plaster for the treatment of inflammatory skin conditions such as plaque psoriasis, from Institut Biochemique SA ("IBSA"). Based on feedback from Canadian dermatologists, the Beteflam Patch is expected to provide distinct advantages over existing treatment options, particularly for patients who suffer from plaque psoriasis in hard to treat areas such as knees and elbows. The efficacy and safety of the product has been established in two successful European Phase III trials and one successful Phase IV trial conducted by IBSA and it is currently marketed in several European countries. In Q4 2014, Cipher submitted the Beteflam regulatory package, which successfully passed screening in Q1 2015, and approved by Health Canada late in December 2015. We expect to launch Beteflam in Canada by May 2016.

OZENOXACIN

In Q1 2015, Cipher in-licensed the Canadian rights to Ozenoxacin, a topical treatment for adult and paediatric patients with impetigo, from Ferrer International SA ("Ferrer"), a privately-held Spanish pharmaceutical company. During Q3 2015, Ferrer successfully completed the second Phase III clinical trial for Ozenoxacin. Cipher anticipates a regulatory submission to Health Canada by April 2016, with a launch in 2017, if approved. Cipher is not responsible for any future development costs, should any be required.

DERMADEXIN™, PRURIDEXIN™ AND ASF-1096

In Q1 2015, Cipher further strengthened its product pipeline by acquiring the worldwide rights to three products from Astion Pharma ("Astion"), a Denmark-based specialty pharmaceutical company. The three products are focused on inflammatory dermatological diseases: Dermadexin™, Pruridexin™, and ASF-1096. Dermadexin and Pruridexin target common, chronic conditions that are insufficiently addressed today. In Q3 2015, Cipher received an Acceptance Review Notification for its 510(k) submissions for both Dermadexin™ and Pruridexin™ to the FDA. The Notification confirms that the submission contains all of the necessary elements and information needed to proceed with the substantive review. Both files remain under review by the FDA. In addition, Pruridexin™ and Dermadexin™ were both submitted for review by Health Canada during Q3 2015 as Natural Health Products with approvals expected in 2016. Cipher has an orphan drug indication in the EU for ASF-1096, a product candidate that has promise as a treatment for a highly disfiguring rare disease, discoid lupus erythematosus, with no current cure. Cipher will pursue an efficient drug development program to support the approval of ASF-1096 in the North American and European markets.

CF101

In Q1 2015, Cipher in-licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite for moderate to severe plaque psoriasis and rheumatoid arthritis.

CF101 recently completed a Phase II/III double-blind, placebo-controlled study, which was designed to test the efficacy of CF101 in patients with moderate to severe plaque psoriasis. Top-line results from the trial were published by Can-Fite at the end of March 2015. Interim results from this Phase II/III trial and final results from the prior Phase II trial in psoriasis were both positive showing that CF101 effectively improved disease symptoms. In addition, at the end of 2013, Can-Fite completed a Phase IIb study for CF101 for active rheumatoid arthritis ("RA"), and has now completed the study design for a Phase III program. Can-Fite plans to start enrolling patients into the Phase III RA program in the first half of 2016 and start the psoriasis Phase III program in the second half of 2016. The timeline to regulatory submissions to Health Canada will be determined by the successful completion of these registration clinical trial programs. Cipher is not responsible for any of these development costs.

NANOLIPOLEE-007

In December 2014, Cipher acquired the assets of Melanovus, a Pennsylvania-based life sciences company. The assets include seven pre-clinical compounds for the treatment of melanoma and other cancers, with world-wide rights. The lead product candidate, Nanolipolee-007, is a liposomal formulation of a plant-derived compound that is a first-in-class cholesterol-transport inhibitor which has demonstrated anti-proliferative activity against certain melanoma cell lines (including B-RAF resistant strains) in-vitro as well as in early in-vivo studies. Cipher will pursue pre-clinical studies leading to Investigational New Drug status with the FDA, Health Canada and other health authorities. The plan for the development of the remaining six topical and oral skin cancer compounds in the portfolio has not yet been established.

Out-Licensing Activities

Cipher continues to pursue marketing partners for CIP-ISOTRETINOIN in other territories, including Latin America. In Q2 2014, Cipher entered into a distribution and supply agreement with Laboratorios Andrómaco S.A. ("Andrómaco") under which Cipher granted Andrómaco the exclusive right to market, sell and distribute Cipher's isotretinoin capsules in Chile. With over 70 years of experience, Andrómaco is a leader in the production and marketing of pharmaceutical products in Chile and certain other Latin American countries. The registration process is completed for 10 mg and 30 mg strengths and once regulatory approval for all strengths (10 mg, 20 mg and 30 mg) is granted, it is expected that Cipher's product will be marketed, in 2016, under the brand name Lisacne-CIP, replacing Andrómaco's current isotretinoin product, Lisacne. Andrómaco is majority owned by Grünenthal GmbH, Germany. Under the terms of the agreement, Cipher achieved a modest regulatory milestone payment in Q3 2015 and is eligible for commercial milestone payments. Cipher will also supply finished product to Andrómaco and product manufacturing will be fulfilled by Cipher's partner, Galephar.

In Q3 2014, Cipher entered into a definitive distribution and supply agreement with Ranbaxy Laboratories Limited (“Ranbaxy India”), a Sun Pharma Company, under which Cipher has granted them the exclusive right to market, sell and distribute Cipher’s isotretinoin capsules in Brazil. Ranbaxy India plans to promote the product through a brand dermatology division in Brazil. Cipher’s isotretinoin formulation is expected to be the flagship product in Ranbaxy India’s dermatology franchise in Brazil, once it achieves regulatory approval. Brazil is the largest isotretinoin market in Latin America, with annual sales exceeding $50 million, and the market has been growing steadily. Under the terms of the agreement, Cipher has received an up-front payment and is eligible for additional pre-commercial milestone payments. Cipher will supply the finished product and product manufacturing will be done by Cipher's partner, Galephar. Ranbaxy India will be responsible for all regulatory-related activities associated with gaining and maintaining regulatory approval of the product in Brazil.

In-Licensing Activities

The Company continues to pursue the acquisition or in-licensing of new late-stage to commercial-stage dermatology product candidates.

Selected Annual Information

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

FINANCIAL INFORMATION (IN MILLIONS OF U. S. DOLLARS, EXCEPT PER SHARE AMOUNTS):

For the years ended December 31,

	2015	2014	2013
Total revenue	$34.4	$29.2	$26.0
Net income for the year	$1.8	$18.8	$23.9
Basic earnings per share	$0.07	$0.74	$0.97
Diluted earnings per share	$0.07	$0.71	$0.93
Total assets	$109,646	$66,105	$52,228

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

- In 2015, the acquisition of Innocutis on April 13, 2015 resulted in an increase in product revenue as well as a significant increase in operating expenses;
- In 2015, the Company recognized a deferred tax asset that contributed $6.2 million to net income;
- In 2014, the Company recognized a deferred tax asset that contributed $04.7 million to net income;
- In 2013, a $5 million milestone was earned based on the cumulative net sales of Absorica; and,
- In 2013, the Company recognized a deferred tax asset that contributed $6.0 million to net income.

Review of Operating Results

REVENUE (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Licensing revenue	25,963	27,356	(1,393)	(5)
Product revenue	8,446	1,868	6,578	352
Total revenue	34,409	29,224	5,185	18

Total revenue in 2015 was $34.4 million compared to $29.2 million in 2014, an increase of 18%. The increase in product revenue was primarily a result of the acquisition of Innocutis in Q2 2015. Product revenue from U.S. operations was $5.6 million for the period following acquisition. Product revenues from Canadian products was $2.9 million compared to $1.9 million in 2014. In local currency, the year-over-year growth in revenues was 80%. Royalty revenue was 5% lower in 2015 than 2014.

In Q4 2015 total revenue was $9.7 million compared to $7.5 million in Q4 2014. Licensing revenue was 3% lower than Q4 2014. Product revenue in Q4 2015 was $3.1 million compared to $0.6 million in Q4 2014. The increase was primarily a result of the acquisition of Innocutis. Canadian product sales (Epuris and Vaniqa) also contributing to the increased performance over prior year.

Licensing Revenue

Revenue for Absorica was $4.3 million in Q4 2015, compared to $4.9 million in Q4 2014. Market share dropped slightly to 18.1%, compared to 20.3% in Q4 2014.

Revenue for Lipofen was $1.3 million in Q4 2015, the same level as in Q4 2014. The product continues to perform well in 2015 despite the fact our partner, Kowa, has decreased their commercial efforts.

Revenue from the Company's extended-release tramadol product (ConZip in the U.S. and Durela in Canada) was $1.0 million in Q4 2015, compared to $0.4 million in Q4 2014. An authorized generic version of the product was launched in the U.S. market in July 2015 by Cipher through its partner Vertical. In Q4 2015, a contractual milestone was achieved related to annual net sales and the impact on Q4 2015 results was $0.4 million.

Product Revenue

Epuris was launched in June 2013 and in May 2015, a second product, Vaniqa was added to the Canadian portfolio. Canadian product revenue in Q4 2015 increased by 57% compared to Q4 2014, with Vaniqa contributing 20% of that growth amount.

Product revenue growth in Q4 2015 resulting from the products acquired with the acquisition of Innocutis was $2.2 million, driven by Sitavig ($0.9 million), Nuvail ($0.7 million), Bionect ($0.3 million), Inova ($0.2 million) and Umecta ($0.1 million). Sitavig total prescriptions were up 27% in Q4 2015 compared to Q3 2015.

RESEARCH AND DEVELOPMENT EXPENSE (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Research and development	2,143	1,111	1,032	93

Research and development ("R&D") expense represents the cost of the Company's drug development activities. R&D expense in 2015 was $2.1 million, compared to $1.1 million in 2014. R&D expense in Q4 2015 was $0.8 million, compared to $0.3 million for the same period in 2014. The increase in R&D expense reflects the additional activities being carried out by the Company related to the products in-licensed in 2015.

SELLING AND MARKETING EXPENSE (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Selling and marketing	8,811	2,069	6,742	325

Selling and marketing expense in Q4 2015 was $3.3 million, compared to $0.5 million in Q4 2014. The increase is primarily attributable to the acquisition of Innocutis in April 2015. The U.S. based sales and marketing expenses are mainly focused on driving the growth of Sitavig, Nuvail and Bionect through an internal sales force and enhanced marketing efforts. This was also the contributing factor for the increase in selling and marketing expense compared to prior year. For 2015, selling and marketing expense was $8.8 million compared to $2.1 million in 2014.

GENERAL AND ADMINISTRATIVE EXPENSE ("G&A") (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
General and administrative	16,594	6,923	9,671	140

General and administrative ("G&A") expense in Q4 2015 was $5.0 million, compared to $2.3 million in Q4 2014. The translation of the Canadian cash and cash equivalents resulted in a foreign exchange loss of $1.3 million in Q4 2015. Expenses incurred by U.S. operations in Q4 2015 were $1.9 million.

For the full year, the increase of $9.7 million compared to prior year was also related to the items mentioned above, as well as transaction-related costs for product acquisitions and the acquisition of Innocutis, which totalled $1.6 million and a foreign exchange loss on the translation of Canadian denominated cash balances of $3.3 million.

AMORTIZATION OF INTANGIBLE ASSETS (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Amortization of intangible assets	4,404	686	3,718	542

The Company began amortizing the intangible rights for CIP-TRAMADOL ER in Q3 2011, and CIP-ISOTRETINOIN in Q1 2009. Amortization expense has also been recorded on the product acquisitions completed in 2015. In addition, amortization expense is now being recorded on the intangible assets acquired in the Innocutis acquisition, which totalled $3.4 million during 2015.

Intangible assets have a finite life and are amortized using the straight-line method over their estimated period of useful life. Intangible assets are reviewed for impairment when events or other changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

FINANCE COSTS (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Interest on senior secured notes	3,824	-	3,824	n.m.
Change in fair value of derivative financial instrument	(2,374)	-	(2,374)	n.m.
Interest Income	(371)	(488)	117	(24)
Total finance costs	1,079	(488)	1,567	(321)

n.m. not meaningful

Finance costs include interest on senior secured notes net of the gain from the change in the fair value of warrants and interest expense earned on surplus cash balances. The prior period figures only include interest income as the debt under the senior secured notes of $40 million was drawn down in conjunction with the Innocutis acquisition in Q2 2015. The interest rate on the debt is 10.25%. Finance costs in Q4 2015 is composed of interest on senior secured notes of $1.3 million, loss from the change in the fair value of the warrants in the amount of $0.1 million due to an increase in stock price during the quarter, net of interest income of $0.1 million.

ADJUSTED EBITDA (IN THOUSANDS OF U.S. DOLLARS)

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
ADJUSTED EBITDA	9,838	19,810	(9,972)	(50)

EBITDA is a non-IFRS financial measure. The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Cipher defines Adjusted EBITDA as earnings before interest expense/income, income taxes, depreciation of property and equipment, amortization of intangible assets, non-cash share-based compensation, changes in fair value of derivative financial instruments and foreign exchange gains and losses from the translation of Canadian cash balances.

The Company considers Adjusted EBITDA as a key metric in assessing business performance and considers Adjusted EBITDA to be an important measure of operating performance and cash flow, providing useful information to investors.

The following is a summary of how EBITDA and Adjusted EBITDA are calculated (in thousands of U.S. dollars):

For the years ended December 31,

	2015	2014
Net income	1,769	18,773
Add back		
Depreciation and amortization	4,466	702
Interest expense/income	3,453	(488)
Deferred tax (recovery)	(2,916)	(360)
EBITDA	6,772	18,627
Change in fair value of derivative	(2,375)	-
(Gains) losses from the translation of Canadian cash balances	3,273	-
Share-based compensation	2,168	1,183
Adjusted EBITDA	9,838	19,810

Adjusted EBITDA in 2015 was $9.8 million, a decrease of $10.0 million compared to 2014. The reduction in Adjusted EBITDA for the year was impacted by the operating losses incurred in the Company's U.S. operations following the acquisition of Innocutis in April 2015.

For the three month periods ended December 31,

	Q4 2015	Q4 2014
Net income	2,040	3,190
Add back		
Depreciation and amortization	1,735	171
Interest expense/income	1,256	(150)
Deferred tax (recovery)	(5,041)	960
EBITDA	(10)	4,171
Change in fair value of derivative	133	-
(Gains) losses from the translation of Canadian cash balances	1,169	-
Share-based compensation	499	370
Adjusted EBITDA	1,791	4,541

Adjusted EBITDA in Q4 2015 was $1.8 million, a decrease of $2.8 million compared to Q4 2014. The reduction in Adjusted EBITDA for the period was impacted by the operating losses incurred in the Company's U.S. operations following the acquisition of Innocutis in April 2015.

INCOME TAXES

Income tax expense is recognized based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates. These rates are then adjusted to effective tax rates based on management's estimate of the weighted average annual income tax rate expected for the full year in each jurisdiction taking into account taxable income or loss in each jurisdiction and available utilization of deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the asset can be recovered.

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income. At December 31, 2015 the Company has recognized a deferred tax asset on the balance sheet of $8.4 million, arising from accumulated losses carried forward from previous years, and a corresponding tax recovery on the statement of earnings and comprehensive income. The Company believes that it is probable that future taxable income will be available against which tax losses can be utilized.

The Company also has approximately $4.3 million of unrecognized deferred income tax assets, which have not been recognized in the financial statements related to the U.S. operations. These assets consist of non-capital loss carry forwards, timing difference and capital losses which are available to reduce taxable income in future years in the U.S.

EARNINGS PER SHARE

For the years ended December 31,

	2015	2014	$ change in 2015	% change in 2015
Income - in thousands of U.S. dollars	1,769	18,773	17,004	(91)
Basic earnings per share	0.07	0.74		
Diluted earnings per share	0.07	0.71		

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated taking into account dilutive instruments that are outstanding.

Net income in Q4 2015 was $2.0 million, or $0.08 per basic share, compared to net income of $3.2 million, or $0.12 per basic share, in Q4 2014.

Net income in 2015 was $1.8 million, or $0.07 per basic share, compared to net income of $18.8 million, or $0.74 per basic share, in 2014.

The weighted average number of shares outstanding for the year ended December 31, 2015 was 25,943,650 (2014 - 25,336,068). The dilutive weighted average number of shares outstanding for the year ended December 31, 2015 was 26,381,704 (2014 - 26,278,503).

Summary of Quarterly Results

QUARTERLY STATEMENTS OF EARNINGS (LOSS) (IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

For the year ended December 31, 2015

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015 Total
Licensing revenue	6,745	6,318	6,263	6,637	25,963
Product revenue	655	2,517	2,197	3,077	8,446
Cost of products sold	187	934	847	557	2,525
Research and development	359	509	509	766	2,143
Selling and marketing	475	2,413	2,595	3,328	8,811
General and administrative	2,803	3,478	5,347	4,966	16,594
Amortization of intangible assets	136	1,221	1,338	1,709	4,404
Interest on senior secured notes	-	968	1,543	1,313	3,824
Change in fair value of warrants	-	(392)	(2,116)	134	(2,374)
Interest income	(135)	(96)	(82)	(58)	(371)
Income (loss) before income taxes	3,575	(200)	(1,521)	(3,001)	(1,147)
Income tax expense (recovery)	1,072	358	695	(5,041)	(2,916)
Income (loss) for the period	2,503	(558)	(2,216)	2,040	1,769
Foreign currency translation adjustment	(4,688)	-	-	-	(4,688)
Income (loss) and comprehensive income (loss) for the period	(2,185)	(558)	(2,216)	2,040	(2,919)
Basic earnings (loss) per share	0.10	(0.02)	(0.09)	0.08	0.07
Diluted earnings (loss) per share (1)	0.09	(0.02)	(0.09)	0.08	0.07

(1) Due to rounding, earnings per share for individual quarters may not sum to earnings per share for the year.

For the year ended December 31, 2014

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014 Total
Licensing revenue	6,833	7,553	6,152	6,818	27,356
Product revenue	308	457	470	633	1,868
Cost of product sold	91	137	124	158	510
Research and development	324	281	245	261	1,111
Selling and marketing	465	554	507	543	2,069
General and administrative	1,627	1,534	1,440	2,322	6,923
Amortization of intangible assets	172	173	174	167	686
Interest income	93	111	134	150	488
Income before income taxes	4,555	5,442	4,266	4,150	18,413
Income tax expense (recovery)	1,051	1,311	(3,682)	960	(360)
Income for the period	3,504	4,131	7,948	3,190	18,773
Other comprehensive income (loss)	(1,379)	1,488	(2,421)	(1,847)	(4,159)
Income and other comprehensive income	2,125	5,619	5,527	1,343	14,614
Basic earnings per share (2)	0.14	0.16	0.31	0.12	0.74
Diluted earnings per share	0.13	0.16	0.30	0.12	0.71

(2) Due to rounding, earnings per share for individual quarters may not sum to earnings per share for the year

For the year ended December 31, 2013

	Q1	Q2	Q3	Q4	2013 Total
Licensing revenue	3,266	5,335	5,384	11,609	25,594
Product revenue	-	86	42	270	398
Cost of product sold	-	26	12	98	136
Research and development	305	333	374	335	1,347
Selling and marketing	370	725	479	415	1,989
General and administrative	882	1,133	1,120	910	4,045
Amortization of intangible assets	275	271	267	264	1,077
Interest income	55	59	62	71	247
Income before income taxes	1,489	2,992	3,236	9,928	17,645
Recovery of income taxes	-	-	-	(6,247)	(6,247)
Income for the period	1,489	2,992	3,236	16,175	23,892
Other comprehensive income (loss)	(265)	(553)	396	(832)	(1,254)
Income and other comprehensive income	1,224	2,439	3,632	15,343	22,638
Basic earnings per share (3)	0.06	0.12	0.13	0.65	0.97
Diluted earnings per share (3)	0.06	0.12	0.12	0.62	0.93

(3) Due to rounding, earnings per share for individual quarters may not sum to earnings per share for the year

The fluctuations in reported results for the last eight quarters resulted primarily from the following factors:

- Product revenue increase reflects the incremental sales from the Company's U.S. operations following the acquisition of Innocutis in April 2015;
- Product revenue increase also reflects the growth in revenues generated by the Canadian commercial operations as a result of significant growth in market penetration of Epuris in the Canadian market as well as the launch of Vaniqa in mid-2015;
- Increases in selling and marketing expenses, primarily as a result of the Innocutis acquisition;
- In Q4 2015, the Company recognized a deferred tax asset, which contributed $6.2 million to net income. This represents an EPS impact of $0.24 per basic share; and,
- In Q3 2014, the Company recognized a deferred tax asset, which contributed $4.7 million to net income. This represented an EPS impact of $0.18 per basic share.

Liquidity and Capital Resources

As at December 31, 2015, the Company has cash and cash equivalents of $27.2 million, compared to $45.4 million as at December 31, 2014. During the year ended December 31, 2015 the Company generated net cash from operating activities (before working capital changes) of $10.2 million and utilized cash of $7.4 million to acquire new products, as well as $9.0 million related to the purchase of Innocutis.

The balance of accounts receivable was $16.3 million at December 31, 2015, compared to $12.3 million as at December 31, 2014. This increase reflects the increased revenues from Cipher's U.S. sales activities.

The balance of accounts payable and accrued liabilities was $13.4 million at December 31, 2015 compared to $9.7 million as at December 31, 2014. In addition, as a result of the acquisition of Innocutis, the Company now has provisions of $4.4 million in current liabilities compared to nil at the end of 2014. The increases in both of these balances reflects the higher levels of sales activities from the U.S. operations.

Deferred revenue relates to amounts received in advance of recognition as revenue. The balance of $0.8 million at December 31, 2015 relates to the up-front licensing payments and pre-commercialization milestone payments received by Cipher under the CIP-ISOTRETINOIN distribution and supply agreement, net of revenue recognized to date. The deferred revenue balance at December 31, 2014 was $2.3 million and the decrease relates to revenue recognized during the year.

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

As at December 31, 2015, there are no finance lease contractual obligations. The only significant operating lease contractual obligations are related to the Company's office locations. The lease for the Company's Canadian premises expires at the end of December 2018. The lease for the Company's U.S. premises was extended until the end of February 2016. A new lease obligation was signed for the Company's U.S. premises, which is effective February 22, 2016 and expires in January 2023.

Share Capital

The Company is authorized to issue an unlimited number of preference shares, issuable in series, and an unlimited number of voting common shares. At December 31, 2015, the Company had 26,058,246 common shares issued and outstanding. Subsequent to year-end, 20,090 common shares were issued under the employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 26,078,336 as of the date of this MD&A.

A total of 533,484 stock options were granted during 2015.

Share-based compensation expense in 2015 was $2.2 million, compared to $1.2 million in 2014. In 2015 the Company's long term incentive programs were extended to the new employees who joined following the Innocutis acquisition.

Galephar Pharmaceutical Research Inc.

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

Critical Accounting Estimates

A summary of significant accounting policies is included in Note 4 of the Company's 2015 audited consolidated financial statements. Critical accounting estimates require management to make certain judgments and estimates, which may differ from actual results. Accounting estimates are based on historical experience and other factors that management believes to be reasonable under the time frame and circumstances. Changes in management's accounting estimates can have a material impact on the financial results of the Company. The Company's critical accounting estimates are included in Note 4 of the Company's 2015 audited consolidated financial statements and are described below.

REVENUE RECOGNITION

Management uses judgement in determining revenue recognition. The Company records revenue on a gross basis for sales in which the Company acts as the principal (product revenue) and on a net basis (licensing revenue) for sales in which the Company in substance acts as an agent in the transaction. For certain licensing partners, in accordance with the terms of the respective agreements, the Company is required to arrange for the supply of finished product from Galephar. Under the terms of the Company's arrangement with Galephar, the Company retains 50% of all amounts earned under the licensing and distribution agreements with the other 50% due to Galephar. Accordingly, associated licensing revenues are recognized net of the amounts due to Galephar.

Licensing revenue is comprised of up-front payments, pre-commercialization milestones, post-commercialization milestones, royalties and product supply fees. For up-front licensing payments and pre-commercialization milestones, revenue is deferred and recognized on a straight-line basis over the estimated term that the Company provides services and when the costs of fulfilling the Company's contractual obligations can be measured reliably. Post-commercialization milestone payments are recognized as revenue when the underlying condition is met, the milestone is not a condition of future deliverables and collectability is reasonably assured. Otherwise, these milestone payments are recognized as revenue over the remaining term of the underlying agreement or the estimated service term for which the Company maintains contractual obligations. Royalty revenue is recognized in the period in which the Company earns the royalty. Product supply fees are recognized when the finished products are shipped from Galephar to the Company's licensing partners, at which time ownership is transferred. Up-front payments, pre-and post-commercialization milestones, royalties and product supply fees represent the Company's 50% share of revenue from agreements with licensing partners, after amounts due to Galephar.

Product revenue is recognized when it is probable that the economic benefits will flow to the Company, the significant risks and benefits of ownership are transferred (upon delivery of product to the Company's customers), the price is fixed or determinable and collectability is reasonably assured. Product revenue represents the amounts receivable after the deduction of discounts, estimate future rebates, returns and other adjustments. The methodology and assumptions used to estimate rebates, returns and other adjustments are monitored and adjusted in light of contractual and historical information.

DEFERRED INCOME TAXES

Management uses estimates when determining deferred income taxes. These estimates are used to determine the recoverability of tax loss carry forwards, research and development expenditures and investment tax credits. Significant judgment is required to determine the probable future cash flows in order to recognize the deferred tax asset. Changes in market conditions, changes in tax legislation, patent challenges and other factors, including the approval or launch of generic versions of any of the Company's products, could adversely affect the ongoing value of deferred tax assets. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each

reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

INTANGIBLE ASSETS

Management estimates the useful lives of intangible assets based on the period during which the assets are expected to be available for use and also estimates their recoverability to assess if there has been an impairment. The amounts and timing of recorded expenses for amortization and impairments of intangible assets for any period are affected by these estimates. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence, generic threats and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's intangible assets in the future.

FUNCTIONAL CURRENCY

Management uses judgment when determining its functional currency. This determination includes an assessment of the indicators as prescribed in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies, management uses judgment in the ultimate determination of the functional currency. Significant judgment is required in this overall assessment of the indicators and determination of the Cipher's functional currency.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Management uses judgment when reviewing non-financial assets for impairment. The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Recoverable amount is the higher of an asset's fair value less the cost of disposal and value in use, (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management. Any impairment losses are recognized immediately in the consolidated statements of earnings and comprehensive income. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

BUSINESS COMBINATIONS

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations (IFRS 3). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs, processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business.

Financial Instruments

At December 31, 2015, financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other long term liability, senior secured notes and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the statement of earnings and comprehensive income and is classified as Level 2 in the fair value hierarchy. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values.

The senior secured notes are measured at amortized cost. At December 31, 2015, the fair value of the senior secured notes approximates their face value of $40.0 million. The fair value is based on cash flows discounted using a rate based on the borrowing rate.

The Company's financial instruments are exposed to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk.

Risk Factors

Reference is made to the description of risk factors with respect to the Company and its business in the Company's most recently filed Annual Information Form filed on SEDAR at www.sedar.com and in the corresponding Form 40-F, and to related information in other filings with Canadian and U.S. securities regulatory authorities. Reference is also made to the risk factors set out below.

Our success depends, in large measure, on our ability to enter into in-licensing, development, manufacturing and marketing and distribution agreements with other pharmaceutical companies and keep such agreements in effect.

Currently, the majority of our marketed product pipeline is in-licensed from Galephar. If we breach our underlying agreement, Galephar could terminate the agreement in its entirety, or with respect to any particular product. Additionally, the Company works with other partners in the specialty pharmaceutical industry.

Factors that may affect the success of our collaborative efforts with pharmaceutical company partners (including Galephar) include, but are not limited to, the following:

- our partners may be pursuing alternative technologies or developing alternative products, either on their own or in collaboration with others, that may be competitive with the products as to which they are collaborating with us, which could affect their commitment to our product development efforts;
- our partners may not be able to adequately supply its products in commercial quantities, which would adversely affect revenues;
- reductions in marketing or sales efforts or a discontinuation of marketing or sales of our products by our commercial partners may reduce future revenues, which will be based on a percentage of net sales by these partners; and
- our partners may terminate their collaborations with the Company, which could make it difficult for us to attract new partners or adversely affect how we are perceived in the business and financial communities.

While the Company attempts to minimize risk by maintaining strong relationships with its partners and focusing on improving products that have already had market success, the development, marketing and commercialization of pharmaceutical products is a process that requires large investments and can take years to complete. Projects can be abandoned along the way or regulatory authorities can refuse to approve new products.

Cipher may be unsuccessful in evaluating material risks involved in completed and future acquisitions.

Cipher regularly reviews acquisition opportunities and as part of the review, conducts business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular acquisition. Despite Cipher's efforts, it may be unsuccessful in identifying and/or evaluating all such risks. As a result, Cipher may not realize the expected benefits and synergies of any given acquisition. If Cipher fails to realize the expected benefits and/or synergies from one or more acquisitions, or does not identify all of the risks associated with a particular acquisition, this could have a material adverse effect on Cipher's business, financial condition and results of operations.

In addition, Cipher may fail to discover liabilities of any acquired companies for which it may be responsible as a successor owner or operator in spite of any investigation made prior to the acquisition. Such discoveries may divert significant financial, operational and managerial resources from existing operations, and could have a material adverse effect on Cipher's business, financial condition and results of operations.

The Corporation may be unable to identify, acquire or integrate acquisition targets successfully.

Part of Cipher's business strategy includes identifying, acquiring and integrating businesses, products, pharmaceuticals or other assets that Cipher believes are complementary to its existing businesses, products, pharmaceuticals or other assets, and forming strategic alliances, joint ventures and other business combinations, to help drive future growth.

Acquisitions or similar arrangements may be complex, time consuming and expensive. Cipher may enter into negotiations for an acquisition but determine not to, or be unable to, complete any particular acquisition or other arrangement, which could result in a significant diversion of management and other employee time, as well as substantial out-of-pocket fees and costs.

If an acquisition or other arrangement is completed, the integration into Cipher's business with the business, product or asset that is so acquired or subject to such other arrangement may also be complex and time-consuming and, if any such business, product and/or asset is not successfully integrated, Cipher may not achieve the anticipated benefits, cost-savings or growth opportunities and may experience other opportunity costs.

Furthermore, these acquisitions and other arrangements, even if successfully integrated, may not advance or enhance Cipher's business strategy as anticipated (or to an extent that the cost of such acquisitions and other arrangements would be justified), and

they may expose Cipher to increased competition or challenges with respect to Cipher's products or geographic markets and expose Cipher to additional liabilities, including litigation, tax and successor liability risks, associated with any business, product or other asset that is acquired or subject to such other arrangement.

Any one of these challenges or risks could impair Cipher's ability to realize any benefit from any such acquisition or other arrangement and this could have a material adverse effect on Cipher's business, financial condition and results of operations.

Cipher currently conducts certain of its operations through U.S. subsidiaries and certain of its assets are held in such entities.

Cipher currently conducts certain of its operations through U.S. subsidiaries and certain of its assets are held in such entities. Cipher may thus be subject to a number of associated risks which are beyond its control. These risks include, but are not limited to: changes of laws affecting foreign ownership, fluctuations in exchange rates, as well as government participation, taxation, royalties, duties, inflation, exchange control and repatriation of earnings. While these factors cannot be accurately predicted, Cipher believes the relative risk of operations in the United States is low on a world wide scale. In particular, the ability of Cipher's U.S. subsidiaries to make payments to the parent corporation may be constrained by certain factors including the level of taxation, particularly corporate profits and withholding taxes, in the United States. Any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict Cipher's ability to fund its operations. Any such limitations, or the perception that such limitations may exist now or in the future, could have a material adverse effect on Cipher's business, financial condition and results of operations.

Cipher may not be able to continue to meet certain covenants under its existing credit facilities and inability to meet these covenants could result in acceleration of the Company's long term liabilities.

Cipher's credit facilities, specifically the Notes, require the Company to maintain specified coverage ratios and satisfy financial covenants. There can be no assurance that Cipher will be able to continue to meet the covenants under its existing credit facilities. A failure to meet such covenants could result in our lenders seeking to enforce their security under such credit facilities. This could have a material adverse effect on Cipher's business, financial condition and results of operations. The credit facility also contains restrictive covenants.

The restrictions in our credit facilities governing our other indebtedness may prevent Cipher from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject the Company to additional restrictive covenants that could affect our financial and operational flexibility. We may be unable to refinance our indebtedness, at maturity or otherwise, on terms acceptable to us, or at all.

Our ability to comply with the covenants and restrictions contained in our credit facilities may be affected by economic, financial and industry conditions, beyond our control including credit or capital market disruptions. The breach of any of these covenants or restrictions could result in a default that would permit the lenders to declare all amounts outstanding to be due and payable, together with accrued and unpaid interest. If Cipher is unable to repay the indebtedness, the lenders could proceed against the collateral securing the indebtedness. This could have serious consequences to our financial position and results of operations and could cause us to become bankrupt or insolvent.

Disclosure Controls and Procedures

Cipher's management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 2015 of the design and operation of the disclosure controls and procedures, as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision and with the participation of the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the Company files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the Company's policy regarding corporate Disclosure Controls and Procedures. Management has certified that as at December 31, 2015 the design and operation of the disclosure controls and procedures continues to be effective.

Effective April 13, 2015, the Company acquired 100% of the outstanding members' interests of Innocutis. The results of Innocutis' operations have been included in the consolidated financial statements since the date of acquisition. However, the Company has not had sufficient time to appropriately assess the internal controls used by Innocutis and integrate them with those of the Company. As a result, the Innocutis operations have been excluded in the Company's assessment of disclosure controls and procedures and internal controls over financial reporting. The Company is in the process of integrating the Innocutis operations and

will be expanding its disclosure controls and procedures and internal control over financial reporting compliance programs to include Innocutis. The acquisition date financial information for Innocutis is included in the discussion regarding the acquisition contained in this MD&A and in Note 6 of the consolidated financial statements.

Cipher's management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. As required under *National Instrument 52-109*, the Company, under the supervision and with the participation of the CEO and the CFO, has carried out a review of its internal controls over financial reporting. Based on this evaluation, the Company's CEO and CFO concluded that the Company has designed and implemented such internal controls over financial reporting so as to provide reasonable assurance regarding the reliability of the Company's reporting and the preparation of financial statements for external purposes and that there were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. In assessing its internal controls over financial reporting, the Company utilizes the Internal Control - Integrated Framework (2013) as released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

February 24, 2016

Independent Auditor's Report

To the Shareholders of
Cipher Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of Cipher Pharmaceuticals Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cipher Pharmaceuticals Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Cipher Pharmaceuticals Inc.
Consolidated Balance Sheets

As at December 31
(in thousands of United States dollars)

	Note	2015	2014
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		27,182	45,368
Accounts receivable		16,303	12,340
Inventory	9	1,248	207
Prepaid expenses and other assets	7	4,045	759
		48,778	58,674
Property and equipment, net	10	286	22
Intangible assets, net	11	46,114	1,473
Goodwill	6,11	6,112	-
Deferred tax assets	16	8,356	5,936
Total Assets		109,646	66,105
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7,12	13,354	9,702
Provisions	12	4,423	-
Current portion of deferred revenue		743	1,316
		18,520	11,018
Deferred revenue		102	1,007
Senior secured notes, net of issuance cost	7	34,578	-
Derivative financial instrument	7	1,758	-
Other long term liability		431	-
Total Liabilities		55,389	12,025
SHAREHOLDERS' EQUITY			
Share capital	13	14,947	13,438
Contributed surplus		4,363	2,776
Accumulated other comprehensive loss		(9,514)	(4,826)
Retained earnings		44,461	42,692
Total Shareholders' Equity		54,257	54,080
Total Liabilities and Shareholders' Equity		109,646	66,105

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

Approved on behalf of the Board:

(signed) "Gerald McDole"

Gerald McDole
Chair of the Board

(signed) "Stephen R. Wiseman"

Stephen R. Wiseman
Director

Cipher Pharmaceuticals Inc.
Consolidated Statements of Earnings and Comprehensive Income (Loss)

For the years ended December 31
(in thousands of United States dollars, except per share data)

	Note	2015	2014
		$	$
Revenues			
Licensing revenue		25,963	27,356
Product revenue		8,446	1,868
Net revenues		34,409	29,224
Cost of products sold		2,525	510
Gross profit		31,884	28,714
Expenses			
Research and development		2,143	1,111
Selling and marketing		8,811	2,069
General and administrative		16,594	6,923
Amortization of intangible assets		4,404	686
Total operating expenses	14	31,952	10,789
Finance costs			
Interest on senior secured notes		3,824	-
Change in fair value of derivative financial instrument		(2,374)	-
Interest income		(371)	(488)
		1,079	(488)
Income (loss) before income taxes		(1,147)	18,413
Income taxes (recovery)	16	(2,916)	(360)
Income for the year		1,769	18,773
Item that may be reclassified to profit or loss			
Foreign currency translation adjustment		(4,688)	(4,159)
Income and comprehensive income (loss) for the year		(2,919)	14,614
Basic earnings per share	17	0.07	0.74
Diluted earnings per share	17	0.07	0.71

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

Cipher Pharmaceuticals Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31
(in thousands of United States dollars)

	Note	Share Capital	Contributed Surplus	Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
		$	$	$	$	$
Balance, January 1, 2015		13,438	2,776	(4,826)	42,692	54,080
Income for the year		-	-	-	1,769	1,769
Exercise of stock options	13	1,101	(520)	-	-	581
Shares issued under the share purchase plan	13	408	-	-	-	408
Share-based compensation expense		-	2,107	-	-	2,107
Foreign currency translation adjustment		-	-	(4,688)	-	(4,688)
Balance, December 31, 2015		14,947	4,363	(9,514)	44,461	54,257
Balance, January 1, 2014		10,223	2,964	(667)	23,919	36,439
Income for the year		-	-	-	18,773	18,773
Exercise of stock options	13	2,926	(1,327)	-	-	1,599
Shares issued under the share purchase plan	13	289	-	-	-	289
Share-based compensation expense		-	1,139	-	-	1,139
Foreign currency translation adjustment		-	-	(4,159)	-	(4,159)
Balance, December 31, 2014		13,438	2,776	(4,826)	42,692	54,080

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

Cipher Pharmaceuticals Inc.
Consolidated Statements of Cash Flows

For the years ended December 31
(in thousands of United States dollars)

	Note	2015	2014
		$	$
Cash provided by (used in)			
Operating activities			
Income for the year		1,769	18,773
Items not affecting cash:			
Depreciation of property and equipment		61	16
Amortization of intangible assets	11	4,404	686
Share-based compensation - share purchase plan	13	61	44
Share-based compensation - stock option plan		2,107	1,139
Foreign exchange loss on cash and cash equivalents		3,273	-
Change in fair value of derivative		(2,374)	-
Interest on senior secured notes		3,824	-
Deferred income taxes		(2,904)	(360)
		10,221	20,298
Changes in non-cash operating items:			
Accounts receivable		(3,191)	7,498
Inventory		(211)	60
Prepaid expenses and other assets		(1,546)	(434)
Accounts payable and accrued liabilities		2,397	(1,134)
Provisions		948	-
Other long term liability		431	-
Deferred revenue		(1,285)	(1,534)
Net cash generated from operating activities		7,764	24,754
Investing activities			
Purchase of property and equipment		(171)	(16)
Acquisition of intangible assets	11	(7,394)	(762)
Acquisition of Innocutis, net of cash acquired	6	(45,341)	-
Net cash used in investing activities		(52,906)	(778)
Financing activities			
Proceeds from senior secured notes		40,000	-
Interest and financing costs paid		(6,924)	-
Proceeds from shares issued under the share purchase plan		347	245
Proceeds from exercise of stock options		581	1,599
Net cash generated from financing activities		34,004	1,844
Increase (decrease) in cash and cash equivalents		(11,138)	25,820
Impact of foreign exchange on cash and cash equivalents		(7,048)	(3,185)
Cash and cash equivalents, beginning of year		45,368	22,733
Cash and cash equivalents, end of year		27,182	45,368

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

1 NATURE OF OPERATIONS

Cipher Pharmaceuticals Inc. ("Cipher") and its subsidiaries (together the "Company") is a specialty pharmaceutical company focused on dermatology. 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 through partners. The Company is building its dermatology business through product licensing and acquisitions. Cipher was incorporated under the Business Corporations Act of Ontario on January 9, 2004 and is located at 2345 Argentia Road, Mississauga, Ontario.

On April 13, 2015, the Company purchased 100% of the outstanding members' interests of Innocutis Holdings, LLC ("Innocutis"). The Company acquired Innocutis as part of its strategy to expand into the United States and to expand its product line offerings to new and existing customers (see Note 6).

2 BASIS OF PREPARATION

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Board of Directors approved these consolidated financial statements on February 23, 2016.

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of measurement

The financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value as described below.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currencies

The financial statements are presented in United States dollars, which is the Company's functional currency. Revenues and expenses denominated in foreign currencies are translated into United States dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are translated using the rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the determination of income for the year.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. The Company does not have any instruments classified in this category except for its derivative financial instrument. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of earnings and comprehensive income. Gains and losses arising from changes in fair value are presented in the statements of earnings and comprehensive income in the period in which they arise.

(ii) Available-for-sale investments: These investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of earnings and comprehensive income and are included in other gains and losses.

(iii) Loans and receivables: These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents and accounts receivable, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: This category includes accounts payable and accrued liabilities, other long term liability and Senior Secured Notes. Financial liabilities at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash and cash equivalents
Cash and cash equivalents includes deposits held at call with banks and other short-term, highly liquid investments readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

Accounts receivable
Accounts receivable consist of amounts due from licensing partners for royalties and product sales in the normal course of business and other amounts such as interest receivable.

Inventory
Inventory, which is comprised of finished goods and raw materials, 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 expenses. If the carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Prepaid expenses and other assets
Prepaid expenses consist of amounts paid in advance for items that have future value to the Company, such as insurance policy payments, U.S. Food and Drug Administration fees, database subscription fees and other items paid in advance. Other assets consist of lease and utility deposits, sample inventory and financing fees related to the undrawn portion of the Notes.

Property and equipment
Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. The useful lives of property and equipment are reviewed at least once per year. Depreciation is computed using the straight-line method, using the following estimated useful lives of the assets or lease terms:

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease

Goodwill
Goodwill represents the excess amount of consideration given over the fair value of the underlying assets in a business combination and is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGU") that are expected to benefit from the synergies of the acquisition. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU.

Intangible assets
Intangible assets include product rights that consist of marketing and other rights relating to products and licensing rights and these are recorded at cost less accumulated amortization and accumulated impairment losses. Intangible assets have a finite life and are amortized using the straight-line method over their estimated useful lives. The useful lives of the intangible assets are reviewed at least once per year.

Amortization of intangible assets is recorded as folllows:

Product rights and other	Straight line over 1 to 10 years
Licensing and intellectual property rights	Straight line over 3 to 13 years

Impairment of non financial assets
The Company reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Recoverable amount is the higher of an asset's fair value less the cost of disposal and value in use, (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management. Any impairment losses are recognized immediately in the consolidated statements of earnings and comprehensive income. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

Accounts payable and accrued liabilities
Accounts payable are obligations to pay for goods and services that have been incurred in the ordinary course of business and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Provisions
Provisions are recognized when present obligations (legal or contractual) as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Deferred revenue
Deferred revenue consists of amounts received from license partners in advance of revenue recognition. Amounts expected to be recognized within one year or less are classified as current liabilities with the balance being classified as non-current liabilities.

Share capital
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of products or delivery of services in the ordinary course of the Company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the entity and when specific criteria have been met for each of the activities as described below.

The Company recognizes revenue from licensing and distribution agreements, which may include multiple elements. Agreements containing multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered element. The consideration received is allocated among the separate elements based on each element's fair value. The applicable revenue recognition criteria are then applied to each unit of accounting. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting. The contractual obligations associated with these agreements vary and may include: planning and managing clinical trials, responsibility for regulatory filings with the key regulatory authorities, maintaining intellectual property and managing product supply arrangements for finished goods.

The Company records revenue on a gross basis for sales in which the Company acts as the principal (product revenue) and on a net basis (licensing revenue) for sales in which the Company in substance acts as an agent in the transaction. For certain licensing partners, in accordance with the terms of the respective agreements, the Company is required to arrange for the supply of finished product from Galephar Pharmaceutical Research Inc. ("Galephar"). Under the terms of the Company's arrangement with Galephar, the Company retains 50% of all amounts earned under the licensing and distribution agreements with the other 50% due to Galephar. Accordingly, associated licensing revenues are recognized net of the amounts due to Galephar.

Licensing revenue: Licensing revenue is comprised of up-front payments, pre-commercialization milestones, post-commercialization milestones, royalties and product supply fees. For up-front licensing payments and pre-commercialization milestones, revenue is deferred and recognized on a straight-line basis over the estimated term that the Company provides services and when the costs of fulfilling the Company's contractual obligations can be measured reliably. Post-commercialization milestone payments are recognized as revenue when the underlying condition is met, the milestone is not a condition of future deliverables and collectability is reasonably assured. Otherwise, these milestone payments are recognized as revenue over the remaining term of the underlying agreement or the estimated service term for which the Company maintains contractual obligations. Royalty revenue is recognized in the period in which the Company earns the royalty. Product supply fees are recognized when the finished products are shipped from Galephar to the Company's licensing partners, at which time ownership is transferred. Up-front payments, pre-and post-commercialization milestones, royalties and product supply fees represent the Company's 50% share of revenue from agreements with licensing partners, after amounts due to Galephar.

Product revenue: Product revenue is recognized when it is probable that the economic benefits will flow to the Company, the significant risks and benefits of ownership are transferred (upon delivery of product to the Company's customers), the price is fixed or determinable and collectability is reasonably assured. Product revenue represents the amounts receivable after the deduction of discounts, estimate future rebates, returns and other adjustments. The methodology and assumptions used to estimate rebates, returns and other adjustments are monitored and adjusted in light of contractual and historical information

Cost of sales
Cost of sales includes the cost of finished goods, royalties to license holders and direct overhead expenses necessary to acquire the finished goods.

Research and development
The Company conducts research and development programs and incurs costs related to these activities, including employee compensation, materials, professional services and services provided by contract research organizations. Research and development costs, net of related tax credits and contractual reimbursements from development partners, are expensed in the periods in which they are incurred.

Income taxes
Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Stock-based compensation
The fair value of options granted to employees and directors is estimated on the date of the grants using the Black-Scholes option pricing model. Stock options vest over four years (25% per year), expire after ten years and can only be settled for shares. Each tranche in an award is considered as a separate award with its own vesting period and grant date fair value. Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed annually, with any impact being recognized immediately. Share-based compensation expense is included in general and administrative expense in the statements of earnings and comprehensive income and in contributed surplus in the balance sheets. The consideration received on the exercise of stock options is credited to share capital at the time of exercise.

Restricted stock units ("RSUs") are notional common shares of the Company to be issued to employees of the Company. RSUs cliff vest three years from the date of grant (one-third per year) and can only be settled in shares. The Company amortizes the fair value of the RSUs on a straight-line basis over the service period of the individual RSU grant, which generally equals the vesting period. RSU forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Performance stock units ("PSUs") are notional common shares of the Company to be issued to senior employees of the Company. PSUs cliff vest three years from the date of grant and can only be settled in shares. Awards of PSUs are dependent upon the achievement of performance targets set by the Board of Directors for a three year period. Compensation expense is recognized over the three year vesting period for the PSUs based on the progress towards achieving the performance targets.

Leases
Leases are classified as finance leases when the lease arrangement transfers substantially all of the risks and rewards related to the ownership of the leased asset. All other leases are treated as operating leases. Payments on operating lease arrangements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Earnings per share
Basic earnings per share ("EPS") is calculated using the treasury stock method, by dividing the net income for the year by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments.

Change in presentation and functional currency
Effective April 2015, Cipher changed its functional currency from Canadian dollars to United States dollars ("US dollar"). The Company also changed its presentation currency from Canadian dollars to United States dollars. The change in presentation currency was made to better reflect the Company's business activities and to improve investor's ability to compare the Company's financial results with other publicly traded businesses in the industry. In making the change to a US dollar presentation currency, the Company followed the guidance in IAS 21:*The Effects of Changes in Foreign Exchange Rates* (IAS 21) and has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all the periods presented have been translated to the new US dollar presentation currency. For comparative balances, assets and liabilities have been translated into the presentation currency at the rate of exchange prevailing at the reporting date, or at the exchange rate prevailing at the date of the transactions. Exchange rate differences arising on translation are taken to accumulated other comprehensive income. The Company has presented the effects of the change in the presentation currency below.

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. Following the change in functional currency outlined above, the functional currency of Cipher and its subsidiaries is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21.

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

	Dec. 31, 2014 United States	Dec. 31, 2014 Canadian	January 1, 2014 United States	January 1, 2014 Canadian
	$	$	$	$
ASSETS				
Current assets				
Cash and cash equivalents	45,368	52,631	22,733	24,179
Accounts receivable	12,340	14,316	21,161	22,507
Inventory	207	240	292	311
Prepaid expenses and other assets	759	881	368	391
	58,674	68,068	44,554	47,388
Property and equipment, net	22	26	23	24
Intangible assets, net	1,473	1,709	1,487	1,582
Deferred tax assets	5,936	6,886	6,164	6,556
Total Assets	66,105	76,689	52,228	55,550
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9,702	11,255	11,657	12,398
Current portion of deferred revenue	1,316	1,527	2,144	2,280
	11,018	12,782	13,801	14,678
Deferred revenue	1,007	1,168	1,988	2,114
Total Liabilities	12,025	13,950	15,789	16,792
Shareholders' Equity				
Share capital	13,438	14,217	10,223	10,696
Contributed surplus	2,776	2,904	2,964	3,095
Accumulated other comprehensive loss	(4,826)	-	(667)	-
Retained earnings	42,692	45,618	23,919	24,967
Total Shareholders' Equity	54,080	62,739	36,439	38,758
Total Liabilities and Shareholders' Equity	66,105	76,689	52,228	55,550

	Twelve months ended: Dec. 31, 2014 United States	Dec. 31, 2014 Canadian
	$	$
Revenues		
Licensing revenue	27,356	30,218
Product revenue	1,868	2,069
Net revenues	29,224	32,287
Cost of products sold	510	563
Gross profit	28,714	31,724
Expenses		
Research and development	1,111	1,227
Selling and marketing	2,069	2,285
General and administrative	6,923	7,673
Amortization of intangible assets	686	758
Interest income	(488)	(540)
Total operating expenses	10,301	11,403
Income before income taxes	18,413	20,321
Income taxes (recovery)	(360)	(330)
Income for the year	18,773	20,651
Item that may be reclassified to profit or loss		
Foreign currency translation adjustment	(4,159)	-
Income and comprehensive income for the year	14,614	20,651
Basic earnings per share	$0.74	$0.82
Diluted earnings per share	$0.71	$0.79

Accounting standards issued but not yet adopted

IFRS 15, *Revenue from Contracts with Customers*: This standard replaces International Accounting Standards ("IAS") 11 *Construction Contracts,* IAS 18, *Revenue* and IFRIC 13, *Customer Loyalty Programmes*. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is January 1, 2018. The Company has not yet evaluated the impact on the financial statements.

IFRS 9, *Financial Instruments:* The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is yet to assess the full impact of IFRS 9 and has not yet determined when it will adopt the new standard.

IFRS 16, *Leases*: On January 13, 2016, the IASB published a new standard, IFRS 16, *Leases*. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has not yet evaluated the impact on the financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and judgments concerning the future that will, by definition, seldom equal actual results. The following are the critical estimates and judgments applied by management that most significantly affect the Company's financial statements. The critical estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Revenue recognition:
Returns - The provision for returns is a complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return product within a specified period prior to and subsequent to 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. The Company estimates provisions for returns based upon historical experience, 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 makes adjustments when it believes that actual product returns may differ from established reserves.

Rebates - The provision for rebates is a complex estimate used in the recognition of revenue. Rebates are granted under contractual and other arrangements with certain customers. Products sold in the U.S. are covered by various programs under which products are sold at a discount. The Company estimates its provision for rebates based on current contractual terms and conditions as well as historical experience and changes to business practices. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future rebate provisions. The Company continually monitors the provision for rebates rebates and makes adjustments when it believes that actual rebates may differ from established provisions. All rebates are recognized in the period in which the underlying sales are recognized as a reduction of revenue.

(ii) Deferred income taxes: Management uses estimates when determining deferred income taxes. These estimates are used to determine the recoverability of tax loss carry forward amounts, research and development expenditures and investment tax credits. Significant judgment is required to determine the probable future cash flows in order to recognize the deferred tax asset. Changes in market conditions, changes in tax legislation, patent challenges and other factors, including the approval or launch of generic versions of any of the Company's products, could adversely affect the ongoing value of deferred tax assets. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

(iii) Estimated useful lives of intangible assets: Management estimates the useful lives of intangible assets based on the period during which the assets are expected to be available for use and also estimates their recoverability to assess if there has been an impairment. The amounts and timing of recorded expenses for amortization and impairments of intangible assets for any period are affected by these estimates. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence, generic threats and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's intangible assets in the future.

(iv) Functional currency: Management uses judgment when determining its functional currency. This determination includes an assessment of the indicators as prescribed in IAS 21. However, applying the factors in IAS 21 does not always result in a clear indication of functional currency. Where IAS 21 factors indicate differing functional currencies, management uses judgment in the ultimate determination of the functional currency. Significant judgment is required in this overall assessment of the indicators and determination of Cipher's functional currency.

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

(v) Impairment of non-financial assets: The Company reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. It also reviews goodwill annually for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

(vi) Accounting for business combinations: The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3, *Business Combinations* (IFRS 3). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs, processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company's acquisition of Innocutis was accounted for as a business combination and all other acquisitions were accounted for as asset acquisitions.

5 RISK MANAGEMENT

Financial risk management
In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and business practices seek to minimize any potential adverse affects on the Company's financial performance.

(i) Credit risk
Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentration of credit risk consist of cash and cash equivalents, accounts receivable and other receivables. The Company's investment policies are designed to mitigate the possibility of deterioration of principal, enhance the Company's ability to meet its liquidity needs and provide high returns within those parameters. Cash and cash equivalents are on deposit with Canadian and US chartered banks. Management monitors the collectability of accounts receivable and estimates an allowance for doubtful accounts. As at December 31, 2015, the allowance for doubtful accounts was $7 (2014 - nil) and the accounts that were past due amounted to $138 (2014 - nil).

The Company has concentration risk, as approximately 89.7% of total sales came from six customers (wholesalers and licensing partners and 95.5% of total accounts receivable came from six customers (wholesalers and licensing partners).

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

The Company has financed its cash requirements primarily through operations and issuances of Senior Secured Notes. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing.

(iii) Market risk
Currency risk - The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in United States dollars. The Company is exposed to currency risk through its net assets denominated in Canadian dollars. A change of 10 basis points in the US/CDN exchange rate on December 31, 2015 balance would have had a $210 impact on net income. The following is a summary of the net financial assets denominated in Canadian dollars as of December 31, 2015:

Cash	$	22,773
Accounts receivable		378
Accounts payable and accrued liabilities		(2,115)
Net financial assets	$	21,036

Interest rate risk - Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The senior secured notes bears interest at fixed rates and as such are not subject to interest rate cash flow risk resulting from market fluctuations in interest rates.

Capital risk management
Shareholders' equity is managed as the capital of the Company. The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time.

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

6 BUSINESS COMBINATION

On April 13, 2015, the Company acquired 100% of the outstanding Innocutis members' interests. The Company acquired Innocutis as part of its strategy to expand in the U.S. and to expand product line offerings to new and existing customers. The principal business of Innocutis is a pharmaceutical and medical device company specializing in the development and commercialization of therapies and devices focused on the medical treatment of dermatological conditions. The operating results of Innocutis have been consolidated with Cipher effective April 13, 2015 and make up the U.S. segment (Note 19). The total purchase price of $45,506 was paid in cash and includes a working capital adjustment of $72. A portion of the purchase price is currently held in escrow until any potential claims against the purchase price are settled. The amount currently held in escrow is $3,550.

Goodwill of $6,112 arising from the acquisition is attributable to the acquired work force and synergies expected from combining the operations of the Company. The goodwill recognized is expected to be deductible for income tax purposes.

The following table provides the fair value of the assets acquired and the liabilities assumed at the date of acquisition.

Cash and cash equivalents	$	165
Accounts receivable		1,867
Inventory		853
Property and equipment		27
Goodwill		6,112
Non-compete agreements		2,190
Intangible assets		39,729
Accounts payable and accrued liabilities		(1,962)
Provisions		(3,475)
Purchase price	$	45,506

During Q4 2015, the Company finalized the determination of the fair value of the assets acquired and liabilities assumed from the acquisition. As a result, the following measurement period adjustments were made; goodwill was decreased by $618, intangible assets were increased by $1,068 and provisions was increased by $451.

Acquisition related costs of $990 have been charged to general and administrative expenses in the statements of earnings and comprehensive income.

Had Innocutis been consolidated from January 1, 2015, the statements of earnings and comprehensive income would show pro-forma revenue of $36,086 and a net loss before income taxes of $4,004 for the year ended December 31, 2015.

The acquisition agreement also includes additional Innocutis management incentive payments of up to $3,000 in cash over a three year period, based on the achievement of certain financial performance targets. The first component of the incentive program related to the achievement of an EBITDA target for 2015 was not achieved and as a result the maximum that could be paid in the future is $2,000. No amounts have been accrued as at December 31, 2015.

7 FINANCIAL INSTRUMENTS AND SENIOR SECURED NOTES

Under certain agreements, the Company has the right to set-off financial assets with financial liabilities with respect to advances, rebates and licensing payments. At December 31, 2015, the Company had gross financial assets of $78 and gross financial liabilities of $6,310 related to Galephar. The net amount of $6,232 owing to Galephar has been recorded in accounts payable and accrued liabilities at December 31, 2015 (gross financial assets of $780 and gross financial liabilities of $6,552 for a net amount of $5,772 owing at December 31, 2014).

In connection with the acquisition of Innocutis, the Company closed a private offering of $100,000 in aggregate principal amount of Senior Secured Notes due in 2020 ("Notes"). The Company received an initial draw down of $40,000, which was used to fund the majority of the purchase price for Innocutis. The Notes bear interest at a fixed rate of 10.25% per annum, payable quarterly in arrears on the last day of each quarter, and will mature in five years, unless repurchased earlier. The Notes are secured by all present and future assets of the Company and have certain restrictive covenenants, incuding quarterly consolidated net revenue, minimum cash balance and consolidated leverage ratio. The Company is in compliance with these covenants at December 31, 2015.

In connection with the offering, the Company issued 600,000 common share purchase warrants to the lender with an option for a cashless exercise in which the settlement price caused the conversion ratio to be variable. Accordingly, the warrants are classified as a financial liability. Gains and losses on re-measurement are presented separately in the statements of earnings and comprehensive income. The exercise price of the warrants is $9.22 (equal to the five day volume-weighted average price on the Toronto Stock Exchange prior to closing, converted to US dollars) and expire seven years from the date of issuance. A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants at April 13, 2015 and December 31, 2015 were $4,132 and $1,758, respectively.

The variables used to compute the fair value as at April 13, 2015 and December 31, 2015 are as follows:

	April 13, 2015	**Dec. 31, 2015**
Share price	$9.22	$4.68
Expected life	7.0 years	7.0 years
Expected volatility	83.6%	79.1%

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

The following is the continuity of the Notes for the year ended December 31, 2015

Balance January 1, 2015	$	-
Draw down of Notes		40,000
Fair value of warrants on initial recognition		(4,132)
Deferred financing cost		(2,119)
Interest expense		2,995
Interest paid		(2,995)
Accretion expense		829
Balance December 31, 2015	$	34,578

Total debt issuance costs associated with the Notes of $2,119 have been netted against the Notes on the consolidated balance sheet. Additional costs of $1,810 which relate to the undrawn portion of the Notes have been included in prepaid expenses and other assets.

Fair value of financial instruments

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

At December 31, 2015, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other long term liability, the Notes, and derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the statements of earnings and comprehensive income and is classified as Level 2 (as defined under IFRS). Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and other long term liability are measured at amortized cost and their fair values approximate carrying values.

The senior secured notes are measured at amortized cost. At December 31, 2015, the fair value of the Notes approximates its face value of $40,000. The fair values are based on cash flows discounted using a rate based on the borrowing rate.

8 LICENSING AGREEMENTS WITH GALEPHAR

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

With respect to CIP-ISOTRETINOIN, the Company has entered into licensing and distribution arrangements for the U.S. and Brazil, while opting to market and sell the product directly in Canada. The Company also has in place various licensing and distribution arrangements with respect to CIP-FENOFIBRATE and CIP-TRAMADOL ER in Canada, the U.S. and Central and South America.

9 INVENTORY

Inventory consists of the following:

	Dec. 31, 2015	Dec. 31, 2014
Finished goods	$ 1,200	$ 207
Raw materials	129	-
Obsolescence provision	(81)	-
	$ 1,248	$ 207

Inventory amounts charged to cost of sales during the year is $1,536 (2014 - $378). The Company increased its reserve for obsolete inventory by $81 during the year. In 2015, inventory write-downs of $79 were charged to cost of sales (2014 - nil), other than the current reserve.

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

10 PROPERTY AND EQUIPMENT

	December 31, 2015		December 31, 2014	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Computer equipment	$ 271	$ 162	$ 122	$ 100
Furniture and fixtures	226	101	111	111
Leasehold improvements	59	7	58	58
	556	$ 270	291	$ 269
Accumulated depreciation	(270)		(269)	
	$ 286		$ 22	

During the year, the Company wrote off fully depreciated assets of $142 (2014 - nil

11 INTANGIBLE ASSETS AND GOODWILL

The Company has entered into the Agreement with Galephar for the rights to package, test, obtain regulatory approvals and market the CIP Products in various countries. The recoverability of the cost of the CIP Product rights is dependent upon sufficient revenues being generated from the related products.

In 2012, the Company paid an up-front fee of $94 to acquire the exclusive license and distribution rights in Canada to market the Beteflam Patch (previously called the Betesil Patch) from Institut Biochemique SA ("IBSA"). In 2015, the filing for approval in Canada was accepted by Health Canada. This milestone resulted in a payment of $121 to IBSA during the year.

In 2014, the Company acquired the assets of Melanovus Oncology, Inc. The assets included seven pre-clinical compounds for the treatment of melanoma and other cancers as well as an exclusive global license to a library of compounds and related intellectual property from The Penn State Research Foundation. The transaction included a payment of $510 for the asset purchase and an up-front license fee of $252 to The Penn State Research Foundation. The licensing agreement provides for future payments based on clinical development and regulatory milestones as well as royalties on commercial sales.

In 2015, the Company in-licensed the Canadian distribution rights to Ozenoxacin, a topical treatment for impetigo, from Ferrer International SA, a privately-held Spanish pharmaceutical company. An up-front payment of $242 was made upon execution of the agreement and a second milestone payment for $201, which is based on a development milestone, was made during the year. The licensing agreement provides for one additional milestone for regulatory approval, as well as royalties on commercial sales.

In 2015, the Company acquired the worldwide rights to three products from Astion Pharma A/S, a Denmark-based specialty pharmaceutical company, for $4,995. The products include: Dermadexin, a patent-protected topical barrier-repair cream for the treatment of seborrheic dermatitis, Pruridexin, a patent-protected topical cream for the treatment of chronic pruritis, and ASF-1096 a product candidate in Phase II that is being investigated as a treatment for discoid lupus erythematosus. The transaction includes future milestones of up to $24,566 based on future regulatory and commercial sales milestones.

In 2015, the Company in-licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite Biopharma for moderate to severe plaque psoriasis and rheumatoid arthritis. An up-front payment of $1,329 was made upon execution of the agreement and the transaction includes future milestones of up to $1,445 based on future regulatory and commercial sales milestones as well as royalties on commercial sales.

In 2015, the Company in-licensed the Canadian rights to Vaniqa and Actikerall from Almirall SA, a Spanish pharmaceutical company Both products have been approved by Health Canada and Vaniqa is currently on the Canadian market. An up-front payment of $353 was paid upon execution of the agreement and the transaction includes future milestones based on commercial sales targets.

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

	Product Rights and Other	Licensing and Intellectual Property Rights	Total
As at January 1, 2014			
Cost	$ 6,615	$ 94	$ 6,709
Accumulated amortization	(5,222)	-	(5,222)
Net book value	$ 1,393	$ 94	$ 1,487
For the year ended December 31, 2014			
Opening net book value	$ 1,393	$ 94	$ 1,487
Additions	-	762	762
Amortization	(686)	-	(686)
Foreign exchange differences	(83)	(7)	(90)
Net book value	$ 624	$ 849	$ 1,473
As at December 31, 2014			
Cost	$ 6,065	$ 849	$ 6,914
Accumulated amortization	(5,441)	-	(5,441)
Net book value	$ 624	$ 849	$ 1,473
For the year ended December 31, 2015			
Opening net book value	$ 624	$ 849	$ 1,473
Acquisition (Note 6)	41,919	-	41,919
Additions	-	7,394	7,394
Amortization	(3,808)	(596)	(4,404)
Foreign exchange differences	(50)	(218)	(268)
Net book value	$ 38,685	$ 7,429	$ 46,114
As at December 31, 2015			
Cost	$ 47,467	$ 8,024	$ 55,491
Accumulated amortization	(8,782)	(595)	(9,377)
Net book value	$ 38,685	$ 7,429	$ 46,114

The Company has considered indicators of impairment for finite lived intangible assets as of December 31, 2015 and December 31, 2014 and no indicators were identified.

The Company performed its annual impairment test for goodwill at December 31, 2015 in accordance with the accounting policy as described in Note 3. The results of this test is shown below.

Goodwill was allocated to the Cipher U.S. CGU, which aggregates the individual product CGUs to the level that goodwill is monitored by management.

The recoverable amount of each CGU, or group of CGUs, is determined based on value in use using discounted cash flow calculations. These calculations use cash flow projections based on financial budgets approved by the Board for 2016 and by management for the remaining period. Cash flows beyond the nine-year period are extrapolated using a zero percent growth rate. The key assumptions used for the value in use calculation at December 31, 2015 were as follows:

- Discount rate 26%
- Average revenue growth 21%
- Average EBITDA margin 36%

The growth rates used are consistent with forecasts developed by management based on historical experience and future anticipated results. The discount rate used reflects the specific risks relating to the Cipher U.S. group of CGUs. Based on the impairment test performed, the Company determined that the recoverable amount of Cipher U.S. was higher than the carrying value of its net assets and accordingly no impairment write down was required.

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND PROVISIONS

	As at Dec 31, 2015	As at Dec 31, 2014
Trade accounts payable	$ 10,725	$ 8,258
Accrued liabilities	2,629	1,444
	$ 13,354	$ 9,702

Provisions relates to estimates made for returns, rebates and other price adjustments. Although the estimates for rebates and other price adjustments relate to revenue recognition transactions, namely product sales, the payments made for the underlying transactions are made directly to the claimants concerned and not to the original customer. Actual costs for these charges and estimates are recorded when incurred The recorded provisions are for the uninvoiced portion of these costs and estimates. The provision for product returns relates to potential returns due to expiration or other return rights under the terms of distribution and supply agreements with customers. The adequacy of the provisions are evaluated based on product sales activity and estimates of expiring products in the distribution chain.

The following is the continuity of the provisions for the year ended December 31, 2015:

Balance January 1, 2015	$ -
Assumed through business acquisition (Note 6)	3,475
Change in provisions during the year	948
Balance December 31, 2015	$ 4,423

13 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.

Issued share capital

The following is a summary of the changes in share capital from January 1, 2014 to December 31, 2015

	Number of common shares (in thousands)	Amount $
Balance outstanding - January 1, 2014	24,976	10,223
Options exercised in 2014	668	2,926
Shares issued in 2014 under the share purchase plan	29	289
Balance outstanding - December 31, 2014	25,673	13,438
Options exercised in 2015	315	1,101
Shares issued in 2015 under the share purchase plan	70	408
Balance outstanding - December 31, 2015	26,058	14,947

Share purchase plan

The Company has an Employee and Director Share Purchase Plan ("ESPP") to allow 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. The shares issued under the ESPP are new shares issued from treasury and the maximum number of shares that can be issued under the ESPP is one million. During the year ended December 31, 2015, 70,682 shares were issued under the ESPP (28,680 in 2014). Included in share-based compensation expense is $61 ($44 in 2014), which is the discount on the shares issued during the year. As at December 31, 2015, 617,112 common shares reserved for ESPP purchases remain available under the plan.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2014 to December 31, 2015.

	Number of options (in thousands)	Weighted average exercise price $
Balance outstanding - January 1, 2014	1,619	2.52
Granted in 2014	516	7.61
Exercised in 2014	(668)	2.37
Forfeited/cancelled in 2014	(183)	4.55
Balance outstanding - December 31, 2014	1,284	4.03
Granted in 2015	533	9.79
Exercised in 2015	(315)	1.96
Forfeited/cancelled in 2015	(88)	8.33
Balance outstanding - December 31, 2015	1,414	6.39

At December 31, 2015, 538,368 options were fully vested and exercisable (644,297 at December 31, 2014).

During 2015, the Company granted 533,484 stock options under the stock option plan. The exercise prices and Black Scholes assumptions are as follows. The options vest over a four year period based on the grant date, 25% per year and have a ten year life. Expected volatility is based on the Company's historical volatility, while estimated forfeitures are not considered significant. There is no expected dividend.

Grant Date and Number Granted		Exercise Price	Black Scholes Value	Risk-free Interest Rate	Expected Life	Expected Volatility
February 24, 2015	238,250	CDN$13.88	CDN$8.77	0.83%	5.8 years	73.0%
May 15, 2015	24,000	CDN$12.03	CDN$7.63	1.15%	5.8 years	73.0%
May 15, 2015	34,000	US$10.06	US$6.38	1.15%	5.8 years	73.0%
June 24, 2015	7,461	CDN$10.67	CDN$6.47	1.14%	5.8 years	69.0%
June 24, 2015	179,251	US$8.67	US$5.26	1.14%	5.8 years	69.0%
August 18, 2015	30,909	CDN$9.38	CDN$6.44	1.39%	5.8 years	81.0%
August 18, 2015	19,613	US$7.23	US$4.96	1.39%	5.8 years	81.0%

Total compensation cost for these stock options is estimated to be $3,077, which will be recognized on a graded basis over the vesting period of the stock options.

During 2015, 314,999 stock options were exercised in exchange for 314,865 common shares. The Company's stock option plan provides that an option holder may elect to receive an amount of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options. The total cash consideration received by the Company for stock option exercises in 2015 was $581 ($1,599 in 2014). The following is a summary of the outstanding options as at December 31, 2015.

Expiry date	Exercise price $	Number of options (in thousands)		
		Vested	Unvested	Total
March 23, 2016	CDN 4.12	40	-	40
September 13, 2016	CDN 2.90	69	-	69
March 9, 2017	CDN 3.90	175	-	175
February 28, 2018	CDN 1.05	20	-	20
February 19, 2020	CDN 1.60	16	-	16
March 11, 2021	CDN 1.16	21	-	21
January 10, 2022	CDN 0.89	-	1	1
February 24, 2022	CDN 1.20	24	16	40
March 5, 2023	CDN 2.88	53	87	140
August 6, 2023	CDN 7.00	20	20	40
February 28, 2024	CDN 8.13	32	87	119
March 18, 2024	CDN 7.43	5	15	20
June 27, 2024	CDN 8.76	63	187	250
February 24, 2025	CDN 13.88	-	225	225
May 15, 2025	CDN 12.03	-	24	24
May 15, 2025	U.S. 10.06	-	34	34
June 24, 2025	CDN 10.67	-	7	7
June 24, 2025	U.S. 8.67	-	123	123
August 18, 2025	CDN 9.38	-	31	31
August 18, 2025	U.S. 7.23	-	19	19
		538	876	1,414

The total stock option expense for the year ended December 31, 2015 is $2,107 ($1,139 in 2014).

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

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

On May 13, 2015, the Company adopted a RSU and PSU plan. RSUs and PSUs are notional share units exchangeable for common shares of the Company. RSUs are granted to all employees and directors of the Company and PSUs are granted to certain executives. RSUs granted to employees vest over a three year period and RSUs granted to directors vest over a one year period. PSUs vest based upon the achievement of financial performance goals for the Company for the three year period ended December 31, 2017.

A summary of the RSUs and PSUs granted and outstanding as at December 31, 2015 is as follows

	RSUs		PSUs	
	Number of Units (in 000's)	Fair Value $	Number of Units (in 000's)	Fair Value $
Balance - January 1, 2015	-	-	-	-
Granted in 2015	69	597	30	264
Forfeited/cancelled in 2015	(10)	(86)	(5)	(40)
Balance - December 31, 2015	59	511	25	224

The total expense for RSUs and PSUs for the year ended December 31, 2015 is $243 (nil in 2014)

14 EXPENSES BY NATURE

	Year Ended Dec 31, 2015	Year Ended Dec 31, 2014
Employees salaries and other short term benefits	$ 9,014	$ 2,736
Directors fees	288	326
Share-based compensation	2,168	1,183
Depreciation of property and equipment	61	16
Amortization of intangible assets	4,404	686
Professional and consulting fees	7,520	2,496
Contract sales	454	761
Facility rent	198	66
Listing fees (TSX and NASDAQ)	127	173
Travel expenses	1,492	416
Insurance	587	336
Foreign exchange (gain) loss	1,807	(766)
Severance costs	293	1,214
Recruitment fees	311	-
Data management subscriptions	428	422
Other transaction related costs	300	-
Product development expense	500	-
Other expenses	2,000	724
	$ 31,952	$ 10,789

15 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:

	Year Ended Dec 31, 2015	Year Ended Dec 31, 2014
Salaries and short-term employee benefits, including bonuses	$ 1,705	$ 1,395
Directors fees	288	326
Share-based compensation	1,286	1,064
Severance costs	-	1,214
	$ 3,279	$ 3,999

In 2015, an advance of $60 to an executive officer was repaid.

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

16 INCOME TAXES

The components of the deferred income tax recovery are as follows:

	Year Ended Dec 31, 2015	Year Ended Dec 31, 2014
Deferred income tax recovery	$ (2,916)	$ (360)

The income tax recovery differs from the amount computed by applying the statutory income tax rate to the income for the year. The sources and tax effects of the differences are as follows:

	Year Ended Dec 31, 2015	Year Ended Dec 31, 2014
Statutory income tax rate of 26.5% applied to income for the year (2014 - 26.5%	$ (304)	$ 4,879
Permanent differences	(339)	296
Effect of tax rates in foreign jurisdictions	(1,218)	-
Effect of currency translation adjustment	821	-
Change in enacted income tax rates and other items	-	(118)
Foreign exchange	41	(313)
Change in deferred tax assets not previously recognized - Canada	(6,172)	(5,104)
Change in deferred tax assets not recognized - United States	4,255	-
Recovery of income taxes	$ (2,916)	$ (360)

At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income. In 2015 the Company recognized $6,172 of previously unrecognized deferred tax assets arising from accumulated losses carried forward, tax credits and temporary differences from previous years.

Deferred income tax assets of the Company are comprised of the following

	As at Dec 31, 2015	As at Dec 31, 2014
Canada		
Non-capital losses and SR&ED expenditures	$ 5,193	$ 4,320
Tax credits	2,269	672
Temporary differences	894	944
	$ 8,356	$ 5,936

The movement in the deferred income tax asset is as follows:

	Year Ended Dec 31, 2015	Year Ended Dec 31, 2014
As at January 1	$ 5,936	$ 6,164
Tax provision	999	(4,086)
Effect of foreign exchange	(496)	(512)
Recognition of previously unrecognized tax assets	6,172	4,370
Deferred tax assets not recognized	(4,255)	-
As at December 31	$ 8,356	$ 5,936

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

The significant components of unrecognized deferred tax assets are summarized as follows

	As at Dec 31, 2015	As at Dec 31, 2014
Canada		
Capital losses	$ 263	$ 282
Tax credits	-	1,801
Temporary differences	-	3,106
	263	5,189
United States		
Non-capital losses	1,152	-
Temporary differences	3,102	-
	4,254	-
	$ 4,517	$ 5,189

As at December 31, 2015 the Company has non-capital loss carry forwards of $5,803 in Canada with expiry dates between 2029 and 2031 and $3,150 in the U.S. that expires in 2035.

The Company has Scientific Research and Experimental Development ("SR&ED") expenditures of $13,791 which can be carried forward indefinitely to reduce future years' Canadian taxable income

The Company has $3,022 of investment tax credits on SR&ED expenditures that are available to be applied against Canadian federal and provincial taxes otherwise payable in future years and expire in varying amounts from 2022 to 2031

17 EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the year ended December 31, 2015 was 25,943,650 (for the year ended December 31, 2014 - 25,336,068).

Diluted earnings per share is calculated using the weighted average number of shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the year ended December 31, 2015 was 26,381,704 (for the year ended December 31, 2014 - 26,278,503).

18 COMMITMENTS AND CONTINGENCIES

The Company has entered into a new lease for office space in Charleston, South Carolina. The new lease commences on February 22, 2016 and ends on January 31, 2023. The Company has also entered into an operating lease for its Canadian office facilities which ends on December 31, 2018. The total minimum annual payments under the leases are as follows:

2016	$446
2017	$486
2018	$506
2019	$338
2020	$348
2021	$358
2022	$369
2023	$ 31

In connection with the new lease for office space in Charleston, the Company has commitments for the purchase of $400 of furniture and fixtures.

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.

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 thousands of United States dollars, except per share amounts)

In the normal course of business, the Company may be the subject of litigation or other potential claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against litigation. At December 31, 2015 no amounts were accrued (2014 - nil).

19 SEGMENTED INFORMATION

The Company's operations are categorized into one industry segment, being specialty pharmaceuticals. The Company is managed geographically in Canada and the United States commencing in Q2 2015 with the acquisition of Innocutis. Before the acquisition of Innocutis the Company only had one segment and accordingly no comparatives are shown below.

For the year ended December 31, 2015

	Canada	United States	Total
External revenue by segment			
Licensing revenue	$ 25,963	$ -	$ 25,963
Product revenue	2,896	5,550	8,446
Net revenues	$ 28,859	$ 5,550	$ 34,409
Segment profit (loss) including amortization	$ 10,316	$ (10,384)	$ (68)
Finance costs			1,079
Income taxes (recovery)			(2,916)
Income for the year			$ 1,769

Other financial information by segment:

	Canada	United States	Total
Total assets	$ 59,869	$ 49,777	$ 109,646
Goodwill and intangible assets	$ 7,576	$ 44,650	$ 52,226
Amortization of intangible assets	$ 1,023	$ 3,381	$ 4,404
Intangible asset additions	$ 7,394	$ 41,919	$ 49,313
Depreciation	$ 49	$ 12	$ 61
Property and equipment additions	$ 270	$ 27	$ 297

CORPORATE DIRECTORY

DIRECTORS

Gerald McDole
Chair of the Board

Stefan Aigner M.D., CFA
Director

William Claypool M.D.
Director

John Mull M.D., F.R.C.P. (C)
Director

Stephen R. Wiseman CPA, CA
Director

Thomas Wellner
Director

OFFICERS

Shawn Patrick O'Brien
President and
Chief Executive Officer

Norman Evans CPA, CA
Chief Financial Officer

SENIOR MANAGEMENT

Shawn Patrick O'Brien
President and
Chief Executive Officer

Norman Evans CPA, CA
Chief Financial Officer

Ralph Bohrer
General Manager and
President, Cipher US

Joan Chypyha
General Manager and
President, Cipher Canada

Brian Rosenberger
Vice President, Alliance &
Strategic Portfolio Management

SHAREHOLDER INFORMATION

Stock Exchange Listing
The Company's common shares are listed on the Toronto Stock Exchange under the symbol "CPH" and on NASDAQ under "CPHR".

Shareholder Inquiries
Inquiries regarding change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent.

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Legal Counsel
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Auditors
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