cipher™
PHARMACEUTICALS
INSPIRE-INNOVATE-DELIVER

2015 Second Quarter Report

EXPANDED PRODUCT PORTFOLIO

	PRODUCT/BRAND	INDICATION	COMMERCIAL STATUS
DERMATOLOGY PRODUCTS	AL12™ LOTION	Dry Skin	Marketed by Cipher USA in the U.S.
	BIONECT®	Dermal Ulcers	
	CLN8™	Mild/Moderate Onychomycosis	
	INOVA®	Acne	
	NUVAIL™	Nail Dystrophy	
	PRO:12 MOUSSE™	Dry Skin	
	SITAVIG®	Recurrent Herpes Labialis	
	VANIQA®	Enzyme inhibitor for hair growth	Marketed by Cipher in Canada
	ACTIKERALL®	Hyperkeratotic actinic keratosis	To be launched by Cipher in Q1 2016
	CF-101	Severe plaque psoriasis & rheumatoid arthritis	Phase 2/3
	DERMADEXIN™	Seborrheic dermatitis	CE Mark
	PRURIDEXIN™	Chronic pruritis	In EU registration
	ASF-1096	Discoid lupus erythematosus	Phase 2
	OZENOXACIN	Impetigo	Phase 3
	NANOLIPOLEE	Melanoma	pre-IND
	ABSORICA™	Severe nodular acne	Marketed by Ranbaxy Pharmaceuticals in the U.S.
	EPURIS®	Severe nodular acne	Marketed by Cipher in Canada
	BETEFLAM®	Plaque psoriasis	Under Health Canada review
OTHER PRODUCTS	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®		Marketed by Medical Futures in Canada

GROWTH STRATEGY

3 - PRONGED APPROACH TO VALUE CREATION

CANADA
Derm Focus

- **Acquisitions:** Accretive in 2 yrs
- **Licensing:** Cash Flow 2 yrs, NPV 5 yrs

TRANSFORMATIVE
Efficient Technology

- Low Cost Acquisitions
- Long Term Value Drivers

USA
Derm Focus

- **Acquisitions:** Accretive in 2 yrs
- **Licensing:** Cash Flow 2 yrs, NPV 5 yrs

LETTER TO SHAREHOLDERS

Fellow Shareholders:

The second quarter was highlighted by our acquisition of Innocutis in mid-April and the realization of our objective to establish a commercial presence and capabilities in the United States. This is a critical step towards one of our key objectives of growing our U.S. business to $250 million in revenue by 2020. We have completed our 100-day integration plan for Innocutis, focused on marketing and sales execution, finance, IT and HR, and we are very pleased with the outcome. We are encourage by the quality, enthusiasm and commitment of the team we now have there.

With the Innocutis acquisition came nine commercialized dermatology products, including seven prescription products. Prior to the transaction, capital constraints placed on Innocutis' marketing budget in the past year severely limited the potential of the key products, in particular, Sitavig and Nuvail. The impact of this constrained investment carried on through the close of the transaction in early April, which was reflected in the sales performance across the Innocutis portfolio during the quarter.

Our immediate focus upon closing the transaction was to develop and begin implementation of significantly enhanced marketing and sales programs to accelerate sales and maximize the opportunity of the products, starting with Sitavig. We have already seen the initial impact of our efforts with Sitavig scripts for Q2 growing more than 5% over those of Q1. This growth accelerated in July where we saw a 30% increase in scripts from June's monthly volume.

The primary rationale for the acquisition was the addition of commercial capabilities in the U.S. to market and sell our products ourselves. Two such products are those we acquired from Astion Pharma earlier this year, including Dermadexin and Pruridexin. Subsequent to quarter end, we received an Acceptance Review Notification from the FDA for our 510(k) submission for Dermadexin, a patent-protected topical barrier-repair cream that targets seborrheic dermatitis. We are also pursuing a 510(k) approval with the FDA for Pruridexin, which we submitted earlier this month.

During the quarter, we also progressed on the component of our growth strategy aimed at expanding our Canadian dermatology product portfolio, where our objective is to grow that business to CAD$50 million by 2020. Specifically, we acquired the Canadian rights to Vaniqa and Actikerall from Almirall, which are both already approved in Canada. We subsequently launched Vaniqa, our second dermatology product to be marketed through our sales force in Canada, in May. While our expectation for Vaniqa in Canada is relatively small, we are encouraged by our customers' response since we took it over. We are targeting a Canadian launch for Actikerall in the first quarter of next year.

We also moved one step closer to the Canadian launch of Ozenoxacin, a novel antibacterial topical treatment for impetigo, one of the most common bacterial skin infections in children worldwide. Subsequent to quarter end, Ferrer successfully completed the second Phase III clinical trial for Ozenoxacin. We are now preparing our regulatory submission to Health Canada, with an expected filing in the first quarter of next year.

Subsequent to the quarter, we further strengthened our robust IP by adding a fourth patent for Absorica to the FDA's Orange Book. In addition, we have two patent applications for Absorica still pending.

Total revenue for Q2 2015 increased 10% year-over-year to $8.8 million (All figures in U.S. dollars), driven by the additional nine products acquired with the Innocutis transaction and steady performance from our isotretinoin products, Absorica and Epuris. Until recently, Epuris was the only product marketed by Cipher's Canadian sales team. However, in May of this year, we launched Vaniqa into the Canadian market. Revenue from our U.S. commercial products, which are comprised entirely of the nine products from Innocutis, contributed $1.8 million to product revenue; the bulk of which, was generated by Sitavig, Nuvail and Bionect, contributing $0.5 million, $0.5 million and $0.4 million in sales, respectively.

As expected, adjusted EBITDA was impacted by the acquisition of Innocutis, which recorded an EBITDA loss of $1.8 million in the quarter. The purchase of Innocutis is an investment for growth going forward and we remain confident in the opportunity it provides, as well as the fundamental role it will play in realizing our vision to be the most customer-centric dermatology company in North America.

Part of our investment in our future is ensuring that we have the right leadership to execute across our expanded opportunities. To this end, we appointed several industry veterans, strengthening our skills and expertise in areas such as Regulatory Affairs, as well as Sales and Marketing. In addition, we created a new role for Alliance and Strategic Portfolio Management. With these appointments, we are confident we have the right talent, skills and experience across the organization to successfully execute on our growth strategy and build Cipher into the best, most customer focused dermatology company in North America.

As we look ahead to the remainder of 2015 and beyond, we remain confident that we are on track to achieve our objectives to grow our royalty stream to $50 million, our U.S. business to $250 million, and our Canadian business to $50 million by 2020. We started 2015 with one Canadian dermatology product on the market, Epuris. If we are successful with our submissions to Health Canada, we could potentially end up with six products on the market by the end of 2016.

Yours truly,

Shawn Patrick O'Brien
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

The following is a discussion and analysis of the operating results and financial position of Cipher Pharmaceuticals Inc. ("Cipher" or "the Company") for the three and six months ended June 30, 2015. This document should be read in conjunction with the unaudited condensed interim financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Additional information about the Company, including the annual financial statements and Annual Information Form for the year ended December 31, 2014, 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 August 13, 2015.

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 three 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, 2014, and elsewhere in our filings with Canadian 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 three months ended June 30, 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, 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. 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 infrastructure in the U.S. through M&A.

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 has completed seven transactions in 2015, acquiring a further 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 continued to strengthen its product pipeline with the acquisition of the worldwide rights to three products from Astion Pharma, a Denmark-based specialty pharmaceutical company. 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 August 2015, Cipher's 510(k) submission for Dermadexin was accepted for regulatory review by the U.S. Food and Drug Administration. The Company plans to submit Pruridexin™ for U.S. regulatory approval under a 510(k) in the third quarter of 2015. The Company also plans to file these products for Canadian regulatory approval. 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.

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 spot treatment for cold sores launched in the U.S. in 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 in the U.S.

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 US$45.5 million in cash, paid on closing. The agreement also includes additional Innocutis management incentive payments of up to US$3.0 million in cash over a three-year period based on the achievement of certain financial performance targets.

In conjunction with the Innocutis acquisition, Cipher closed on a private offering of US$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 US$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, subject to certain conditions, to finance future acquisitions. 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. In connection with the offering, Cipher has 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 19% market share by June 2015, based on total isotretinoin prescriptions (source: IMS). In Q3 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 US$630 million in 2014, an increase of 9% over the prior year, with prescriptions growing by 4% on a year-over-year basis. Prescriptions for Absorica in Q2 2015 were up by 1.8% compared to Q2 2014 (source: IMS).

In September 2013, Ranbaxy received a Paragraph IV Certification Notice of filing from Watson Laboratories, Inc. (now Allergan plc) of an Abbreviated New Drug Application to the U.S. Food and Drug Administration (“FDA”) for a generic version of Absorica. Ranbaxy and Cipher intend to vigorously defend Absorica's intellectual property rights and pursue all available legal and regulatory pathways in defense of the product. The costs of the proceeding are being borne by Ranbaxy. The Markman (pre-trial) hearing was held on April 2, 2015 and the judge’s opinion was released on April 20, 2015. Of the five terms under review in the proceedings, all five were construed by the court consistent with the positions of Cipher and the other plaintiffs. A copy of the opinion has been posted on the Company’s web site.

Cipher has been advised by Ranbaxy that the Paragraph IV filing has no impact on the current sales and marketing plans for the product and that Ranbaxy plans to continue to invest significantly in Absorica.

Absorica is currently protected by four 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 a fourth patent (Patent Number 9,078,925) was issued in July 2015. The four patents are formulation-related patents describing the product ingredients. There are two additional new Absorica patent applications pending with the U.S. Patent and Trademark Office.

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 2014 was $16.4 million, an increase of 7% over 2013. Epuris prescriptions for Q2 2015 increased by 9.8% compared to Q2 2014.

Epuris achieved market penetration of 15.5% as of December 2014 and market share continues to grow in 2015 with a 19% market share attained in June 2015 (source: IMS). In Q2 2015, prescriptions grew by 95% over 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. exceeds US$12.6 billion and is made up of three primary groups of drugs: statins, fibrates and the prescription DHA/EPA (omega 3) market. The market for existing fenofibrate formulations in the U.S. exceeded US$1.26 billion during 2014, down from US$1.68 billion 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 preemptively 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 4% in Q2 versus Q1 for this year.

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 2014 for extended release formulations of tramadol exceeded US$76 million which represents 1.8% of the total tramadol immediate-release and extended-release prescription market. Despite the fact of the decline in net sales for Q2, ConZip prescriptions increased by 2.8% in Q2 as compared to Q1 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 and achieved a market share of 4.9% by the end of 2014. Sales of Durela in Q2 2015 were 20% higher than Q2 2014. According to IMS, the Canadian market for extended-release tramadol was approximately $27 million in 2014, an increase of 1% over 2013. Patents have been issued both in the U.S. and Canada for the product.

New Products Acquired Through Innocutis:

SITAVIG®

Sitavig is a unique, timed-release, mucoadhesive buccal tablet containing 50 mg of acyclovir indicated for the treatment of herpes labilalis (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.

The prescription herpes labialis market is largely genericized and was approximately $612 million in 2014 (source: IMS), a 2.3% increase over 2013 sales. The available market in terms of branded Sitavig dollars is $2.4 billion. Oral herpes prescriptions were up 1.4% in Q2 2015 versus the same period last year.

Sitavig launched in July 2014 and currently has 0.5% market share. Scripts grew 5.4% in Q2 versus Q1 of this year. There is a large primary care component to the oral herpes market. Currently, Cipher is only marketing the product to the Dermatologists and plans to reach the full potential of the product by expanding promotional efforts into other specialities and primary care. Sitavig currently has a 16.9% share of the topical branded anti-viral dermatology market. Currently, 92% of the Rxs come from Dermatology. Cipher is developing an aggressive sales and marketing approach to enhance the Dermatology position and share as well as using marketing, non-personal promotion and actively seeking partnerships to grow the non-dermatology market for Sitavig.

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 US with $6.2 million in 2014 sales. Total prescriptions were down 40% in Q2 compared to the same time last year. This is likely explained by the launch of two new topical onychomycosis (“OM”) treatments late last year. OM and nail dystrophy are commonly 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 the people in the USA have Brittle Nail Syndrome.

Nuvail launched in June 2012 and in Q2 2015 achieved 73% nail dystrophy market share. Prescriptions remained unchanged between Q2 and Q1 of 2015. Cipher plans to conduct small compatibility studies for Nuvail with the new OM topical products.

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 $4.1 million in 2014. Total prescriptions decreased by 8% in Q2 versus Q1 of this year. Bionect achieved 93% topical HA market share for Q2 of this year. Prescriptions are down 10% from Q1 of this year. Cipher is planning on launching a new formulation to enhance the brand positioning.

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 is under review by Health Canada.

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. 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 compounds in the portfolio has not yet been established.

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. Ferrer commenced a second phase III trial of Ozenoxacin in June 2014. The multicenter, randomized, double-blinded, clinical study comparing Ozenoxacin 1% cream versus placebo will be conducted in approximately 412 patients aged two months and older with a clinical diagnosis of non-bullous or bullous impetigo. Subsequent to the quarter, Cipher announced that its partner, Ferrer, had successfully completed the second phase III clinical trial for Ozenoxacin, a topical treatment for adult and paediatric patients with impetigo, a highly contagious bacterial skin infection. Cipher anticipates a regulatory submission to Health Canada in the first quarter of 2016.

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. Subsequent to quarter-end, Cipher announced that it has received an Acceptance Review Notification for its 510(k) submission for Dermadexin™ to the FDA. The Notification confirms that the submission contains all of the necessary elements and information needed to proceed with the substantive review. In addition to Dermadexin™, we are planning a 510(k) submission to the FDA for Pruridexin™ in the coming weeks, followed by a submission for Canadian regulatory approval for both Dermadexin and Pruridexin. 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 with no current cure. Cipher will pursue an efficient drug development program to support these approvals in North American and European markets.

CF-101

In Q1 2015, Cipher in-licensed the Canadian distribution rights to CF101, a novel chemical entity being developed by Can-Fite (NYSE MKT: CANF) (TASE: CFBI) 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, CF101 completed a Phase IIb study for active rheumatoid arthritis, and Can-Fite has completed the study design for a Phase III program. The timeline to regulatory submissions to Health Canada will be determined by the completion of the remaining clinical trial program.

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 nearing completion 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 the second half of 2015, 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 is eligible for regulatory and commercial milestone payments and 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.

Review of Operating Results

REVENUE (IN THOUSANDS OF U.S. DOLLARS)

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Licensing revenue	13,063	14,386	(1,323)	(9)
Product revenue	3,172	765	2,407	315
Total revenue	16,235	15,151	1,084	7

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Licensing revenue	6,318	7,553	(1,235)	(16)
Product revenue	2,517	457	2,060	451
Total revenue	8,835	8,010	825	10

Total revenue in Q2 2015 was $8.8 million compared to $8.0 million in Q1 2014, an increase of 10%. Licensing revenue was down 16% compared to Q2 2014. Product revenue growth was primarily a result of the acquisition of Innocutis in April 2015 with Canadian product sales (Epuris and Vaniqa) also contributing to the increased performance.

Revenue for Absorica was $5.1 million in Q2 2015, compared to $5.3 million in Q2 2014 when we experienced a jump in our 30 mg strength due to a competitor's stock out. Market share continue to hold in the 19% to 20% range consistent with the last three quarters, compared to 20.3% in Q2 2014. Overall growth for the isotretinoin market was 1.9% compared to Q2 2014.

Revenue for Lipofen was $0.9 million in Q2 2015, compared to $1.8 million in Q2 2014. An authorized generic version of the product was launched by Cipher's U.S. marketing partner in Q2 2014 which resulted in the increase in the prior period related to launch quantities being shipped to distributors. 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 $0.3 million in Q2 2015, compared to $0.5 million in Q2 2014.

Epuris was launched in June 2013 and until the second quarter of 2015 was the only product marketed by Cipher's Canadian sales and marketing organization. In May 2015, a new product, Vaniqa was added to the Canadian portfolio. Canadian product revenue in Q2 2015 increased by 88% compared to Q2 2014, with Vaniqa contributing 10% of that growth amount.

Product revenue growth in Q2 2015 as a result of the acquisition of Innocutis was $1.8 million, driven by Sitavig $0.5 million, Nuvail $0.5 million and Bionect $0.4 million.

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

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Research and development	868	605	263	44

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Research and development	509	281	228	81

Research and development ("R&D") expense represents the cost of the Company's drug development activities. R&D expense in Q2 2015 was $0.5 million, compared to $0.3 million in Q2 2014. The increase relates primarily to initial pre-clinical work on Nanolipolee -007 (acquired from Melanovus) and supporting work for regulatory submissions. This was also the contributing factor for the increase in R&D expense for the six month period, compared to prior year.

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

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Selling and marketing	2,888	1,019	1,869	183

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Selling and marketing	2,413	554	1,859	336

Selling and marketing expense in Q2 2015 was $2.4 million, compared to $0.6 million in the second quarter of 2014. The additional selling and marketing expenses in Q2 2015 of $18 million relates to the acquisition of Innocutis. This was also the contributing factor for the increase in selling and marketing expense for the six month period, compared to prior year. 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 traditional marketing efforts.

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

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
General and administrative	6,281	3,161	3,120	99

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
General and administrative	3,477	1,534	1,944	127

General and Administrative ("G&A") expense in Q2 2015 was $3.5 million, compared to $1.5 million in the second quarter of 2014. The increase in G&A includes $1.0 related to expenses incurred by Innocutis since the date of acquisition. Canadian operations incurred additional expenses for business development activities as well as additions to the senior management team. Increased stock option expense due to the increase in the share price compared to the prior year contributed $0.3 million of the increase over prior year. Transaction costs associated with the acquisition of Innocutis totalled $0.5 million in Q2 2015. For the six month period, the increase compared to prior year was also impacted by transaction related costs incurred during Q1 2015 for product acquisitions and Innocutis related expenses, which totalled $1.1 million.

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

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Amortization of intangible assets	1,357	345	1,012	293

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Amortization of intangible assets	1,221	173	1,048	606

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

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 six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Finance costs	345	(204)	549	n.m.

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Finance costs	480	(111)	591	n.m.

n.m. not meaningful

Finance costs include interest on senior secured notes and the gain or loss from the change in the fair value of warrants, net of 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% and the finance costs amount in Q2 2015 is net of interest income of $0.1 million as well as the positive impact of a change in the fair value of the warrant in the amount of $0.4 million.

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

For the six month periods ended June 30

	2015	2014	$ change in 2015	% change in 2015
ADJUSTED EBITDA	6,241	10,830	(4,589)	(42)

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
ADJUSTED EBITDA	2,132	5,915	(3,783)	(64)

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, income taxes, depreciation of property and equipment, amortization of intangible assets, non-cash share-based compensation and changes in fair value of derivative financial instruments.

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 six month periods ended June 30,

	2015	2014
Net income (loss) for the period	1,945	7,635
Add back		
Depreciation and amortization	1,370	353
Interest expense	968	-
Deferred tax	1,430	2,362
EBITDA	5,713	10,350
Change in fair value of derivative	(392)	-
Share-based compensation	920	480
Adjusted EBITDA	6,241	10,830

For the three month periods ended June 30,

	2015	2014
Net income (loss) for the period	(558)	4,131
Add back		
Depreciation and amortization	1,231	178
Interest expense	968	-
Deferred tax	358	1,311
EBITDA	1,999	5,620
Change in fair value of derivative	(392)	-
Share-based compensation	525	295
Adjusted EBITDA	2,132	5,915

Adjusted EBITDA in Q2 2015 was $2.1 million, a decrease of $3.8 million compared to Q2 2014, reflecting the negative EBITDA in Q2 2015 from Innocutis of $1.8 million as well as transaction costs and expenses related to the Innocutis acquisition.

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.

EARNINGS PER SHARE

For the six month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Income (loss) - in thousands of U.S. dollars	1,945	7,635	(5,690)	(75)
Basic earnings per share	0.08	0.30		
Diluted earnings per share	0.07	0.29		

For the three month periods ended June 30,

	2015	2014	$ change in 2015	% change in 2015
Income (loss) - in thousands of U.S. dollars	(558)	4,131	(4,689)	n.m.
Basic earnings per share	(0.02)	0.16		
Diluted earnings per share	(0.02)	0.16		

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

Net loss in Q2 2015 was $0.6 million, or ($0.02) per basic share, compared to net income of $4.1 million, or $0.16 per basic share in Q2 2014.

The weighted average number of shares outstanding for the three month period ended June 30, 2015 was 25,919,087 (2014 - 25,202,425). The dilutive weighted average number of shares outstanding for the three months ended June 30, 2015 was 26,474,471 (2014 - 26,119,274).

Summary of Quarterly Results

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

For the six month period ended June 30, 2015

	Q1 2015	Q2 2015	2015 YTD Total
Licensing revenue	6,745	6,318	13,063
Product revenue	655	2,517	3,172
Cost of products sold	187	934	1,121
Research and development	359	509	868
Selling and marketing	475	2,413	2,888
General and administrative	2,803	3,478	6,281
Amortization of intangible assets	136	1,221	1,357
Interest on senior secured notes	-	968	968
Interest income	(135)	(96)	(231)
Change in fair value of warrants	-	(392)	(392)
Income before income taxes	3,575	(200)	3,375
Income tax expense	1,072	358	1,430
Income (loss) for the period	2,503	(558)	1,945
Basic earnings per share	0.10	(0.02)	0.08
Diluted earnings per share	0.09	(0.02)	0.07

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	542	2,068
General and administrative	1,627	1,534	1,440	2,323	6,924
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	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 (loss)	2,125	5,619	5,527	1,343	14,614
Basic earnings per share (1)	0.14	0.16	0.31	0.12	0.74
Diluted earnings per share	0.13	0.16	0.30	0.12	0.71

(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, 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	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 (loss)	1,224	2,439	3,632	15,343	22,638
Basic earnings per share (2)	0.06	0.12	0.13	0.65	0.97
Diluted earnings per share (2)	0.06	0.12	0.12	0.62	0.93

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

Liquidity and Capital Resources

As at June 30, 2015, the Company has cash and cash equivalents of $29.7 million, compared to $45.4 million as at December 31, 2014. During the six month period ended June 30, 2015 the Company generated net cash from operating activities of $6.1 million, utilized cash of $7.4 million to acquire new products as well as $9.0 million for the purchase of Innocutis.

The balance of accounts receivable was $13.4 million at June 30, 2015, compared to $12.3 million as at December 31, 2014.

The balance of accounts payable and accrued liabilities was $10.8 million at June 30, 2015 compared to $9.7 million as at December 31, 2014.

Deferred revenue relates to amounts received in advance of recognition as revenue. The balance of $1.6 million at June 30, 2015 relates to the up-front licensing payments and pre-commercialization milestone payments received by Cipher under the CIP-ISOTRETINOIN and CIP-TRAMADOL ER distribution and supply agreements, net of revenue recognized to date. The deferred revenue balance at December 31, 2014 was $2.3 million and the decrease in the six month period relates to revenue recognized during the period.

As of June 30, 2015, the Company was not able to fulfill a financial covenant as stipulated under the Notes which constituted an event of default. Since the Company did not have an unconditional right to defer the settlement of the debt for at least 12 months, IFRS requires the liability to be classified as current as at June 30, 2015. The carrying amount of the debt is $33,864 as of June 30, 2015. On July 31, 2015, the Company received an irrevocable waiver of the covenant violation and as a result the lender cannot demand payment of the Notes as a result of the breach. No terms of the Notes were amended as a result of the waiver. The breach occurred due to the timing of the closing of the Innocutis acquisition on April 13, 2015 which resulted in not having a full quarter of Innocutis' results included in consolidated net revenue for the quarter. The covenant relates to consolidated net revenue for the quarter ended June 30, 2015, which was $9 million and the Company reported actual consolidated net sales of $8.835 million. The Company expects the Notes to be classified as long term under IFRS at September 30, 2015.

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 June 30, 2015, there are no capital lease contractual obligations. The only significant operating lease contractual obligations are related to the Company's office location. The lease for the Company's Canadian premises expires at the end of December 2018. The lease for the Company's U.S. premises expires at the end of October 2015.

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 June 30, 2015, the Company had 25,963,156 common shares issued and outstanding. Subsequent to quarter-end, 5,462 common shares were issued under the employee and director share purchase plan, bringing the total number of common shares issued and outstanding to 25,968,618 as of the date of this MD&A.

A total of 244,713 stock options were granted during Q2 2015, with exercise prices of $10.06 and $8.67.

Share-based compensation expense in Q2 2015 was $0.5 million, compared to $0.3 million in Q2 2014, which reflects the impact of the increase in the Company's share price on share-based compensation expense.

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 3 of the Company's 2014 audited 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 2014 audited financial statements and are described below.

REVENUE RECOGNITION

Management evaluates the multiple elements and units of accounting which are included within certain licensing and distribution agreements. The recognition of revenue on up-front licensing payments and pre-commercialization amounts are over the estimated period that the Company maintains contractual obligations. The estimated periods are reviewed at least annually and are updated if expectations change as a result of licensing partner interactions, product commercial obsolescence or other factors. It is possible that these factors may cause significant changes in the Company's recognition of revenue in the future.

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 Company's functional currency.

PROVISION FOR PRODUCT RETURNS

The provision for product returns is a significant and complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return the 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 revenue. The Company estimates provisions for product 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.

Financial Instruments

At June 30, 2015, our financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, 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, accounts receivable, accounts payable and accrued liabilities are measured at amortized cost and their fair values approximate carrying values due to their short-term nature.

The senior secured notes are measured at amortized cost. At June 30, 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. The unaudited condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2014. There have been no changes in the risk management area or in any risk management policies since the year end except for the addition of the senior secured notes and derivative financial instrument.

The Company may enter into foreign exchange forward contracts to minimize transaction exposures and the resulting volatility in earnings. There were no hedge contracts in place as of June 30, 2015.

Risk Factors

Reference is made to the description of risk factors with respect to the Company and its business in the Company's 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.

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

There have been no changes in the Company's internal control over financial reporting during the most recent interim period ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, other than as noted below.

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 interim 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 quarterly 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 over the next year. The acquisition date financial information for Innocutis is included in the discussion regarding the acquisition contained in this MD&A and in Note 3 of the consolidated interim financial statements.

As of the end of the period covered by this MD&A and accompanying interim financial statements, the Company's management evaluated the design of its disclosure controls and procedures and internal control over financial reporting. Based on that evaluation and subject to the scope exclusion described above, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of interim financial statements for external reporting purposes in accordance with IFRS as at June 30, 2015.

Cipher Pharmaceuticals Inc.

Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2015
(Unaudited)

Cipher Pharmaceuticals Inc.
Consolidated Balance Sheets

As at June 30, 2015 and December 31, 2014
(in thousands of United States dollars - unaudited)

	Note	2015	2014
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		29,654	45,368
Accounts receivable		13,401	12,340
Inventory		1,428	207
Prepaid expenses and other assets	4	2,667	759
		47,150	58,674
Property and equipment, net		205	22
Intangible assets, net	5	48,050	1,473
Goodwill	3	6,730	-
Deferred tax asset		4,098	5,936
Total Assets		106,233	66,105
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4,6	10,772	9,702
Provisions	6	3,075	-
Senior secured notes, net of issuance cost	4	33,864	-
Current portion of deferred revenue		1,049	1,316
		48,760	11,018
Deferred revenue		525	1,007
Derivative financial instrument	4	3,749	-
Other long term liability		283	-
Total Liabilities		53,317	12,025
SHAREHOLDERS' EQUITY			
Share capital	7	14,589	13,438
Contributed surplus		3,204	2,776
Accumulated other comprehensive loss		(9,514)	(4,826)
Retained earnings		44,637	42,692
Total Shareholders' Equity		52,916	54,080
Total Liabilities and Shareholders' Equity		106,233	66,105

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

Cipher Pharmaceuticals Inc.

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)

Three and six month periods ended June 30, 2015 and 2014
(in thousands of United States dollars, except per share data - unaudited)

	Note	Three months June 30, 2015	Three months June 30, 2014	Six months June 30, 2015	Six months June 30, 2014
		$	$	$	$
Revenues					
Licensing revenue		6,318	7,553	13,063	14,386
Product revenue		2,517	457	3,172	765
Net revenues		8,835	8,010	16,235	15,151
Cost of products sold		934	137	1,121	228
Gross profit		7,901	7,873	15,114	14,923
Expenses					
Research and development		509	281	868	605
Selling and marketing		2,413	554	2,888	1,019
General and administrative		3,478	1,534	6,281	3,161
Amortization of intangible assets		1,221	173	1,357	345
Total operating expenses	8	7,621	2,542	11,394	5,130
Finance costs					
Interest on senior secured notes		968	-	968	-
Change in fair value of derivative financial instrument		(392)	-	(392)	-
Interest income		(96)	(111)	(231)	(204)
		480	(111)	345	(204)
Income (loss) before income taxes		(200)	5,442	3,375	9,997
Income taxes	10	358	1,311	1,430	2,362
Income (loss) for the period		(558)	4,131	1,945	7,635
Item that may be reclassified to profit or loss					
Foreign currency translation adjustment		-	1,488	(4,688)	109
Income (loss) and comprehensive income (loss) for the period		(558)	5,619	(2,743)	7,744
Basic earnings per share	11	(0.02)	0.16	0.08	0.30
Diluted earnings per share	11	(0.02)	0.16	0.07	0.29

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

Cipher Pharmaceuticals Inc.

Consolidated Statements of Changes in Shareholders' Equity

Six month periods ended June 30, 2015 and 2014
(in thousands of United States dollars - unaudited)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	$	$	$	$	$
Balance, January 1, 2015	13,438	2,776	(4,826)	42,692	54,080
Income for the period	-	-	-	1,945	1,945
Exercise of stock options	1,054	(477)	-	-	577
Shares issued under the share purchase plan	97	-	-	-	97
Share-based compensation - stock option plan	-	905	-	-	905
Foreign currency translation adjustment	-	-	(4,688)	-	(4,688)
Balance, June 30, 2015	14,589	3,204	(9,514)	44,637	52,916
Balance, January 1, 2014	10,223	2,964	(667)	23,919	36,439
Income for the period	-	-	-	7,635	7,635
Exercise of stock options	1,690	(773)	-	-	917
Shares issued under the share purchase plan	85	-	-	-	85
Share-based compensation - stock option plan	-	467	-	-	467
Foreign currency translation adjustment	-	-	109	-	109
Balance, June 30, 2014	11,998	2,658	(558)	31,554	45,652

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

Cipher Pharmaceuticals Inc.
Consolidated Statements of Cash Flows

Six month periods ended June 30, 2015 and 2014
(in thousands of United States dollars - unaudited)

	Note	Six months June 30, 2015	June 30, 2014
		$	$
Cash provided by (used in)			
Operating activities			
Income for the period		1,945	7,635
Items not affecting cash:			
Depreciation of property and equipment		13	8
Amortization of intangible assets	5	1,357	345
Share-based compensation - share purchase plan	7	15	13
Share-based compensation - stock option plan		905	467
Change in fair value of derivative		(392)	-
Interest on senior secured notes		900	-
Deferred income taxes		1,354	2,362
		6,097	10,830
Changes in non-cash operating items:			
Accounts receivable		(424)	7,069
Inventory		(254)	(105)
Prepaid expenses and other assets		(169)	149
Accounts payable and accrued liabilities		(114)	(3,840)
Provisions		51	-
Other long term liability		283	-
Deferred revenue		(556)	(957)
Net cash generated from operating activities		4,914	13,146
Investing activities			
Purchase of property and equipment		(42)	(9)
Acquisition of intangible assets	5	(7,351)	-
Acquisition of Innocutis, net of cash acquired	3	(45,413)	-
Net cash used in investing activities		(52,806)	(9)
Financing activities			
Proceeds from senior secured notes		40,000	-
Interest and financing costs paid		(4,704)	-
Proceeds from shares issued under the share purchase plan		83	72
Proceeds from exercise of stock options		576	917
Net cash generated from financing activities		35,955	989
Increase (decrease) in cash and cash equivalents		(11,937)	14,126
Impact of foreign exchange on cash		(3,777)	333
Cash and cash equivalents, beginning of period		45,368	22,733
Cash and cash equivalents, end of period		29,654	37,192

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

1 NATURE OF OPERATIONS

Cipher Pharmaceuticals Inc. ("Cipher") and its subsidiaries (together the "Company") is a specialty pharmaceutical company 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 franchise 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 3).

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2014, which were prepared in accordance with IFRS as issued by the IASB. The Board of Directors approved these condensed interim consolidated financial statements on August 13, 2015.

Consolidation

The wholly-owned subsidiaries of Cipher are consolidated to produce the financial results for the Company. All intercompany transactions, balances, income and expenses on transactions between subsidiaries are fully eliminated. Profits and losses resulting from intercompany transactions that were recognized are also fully eliminated.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

Business combinations

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a business is the fair values of the assets transferred and the liabilities incurred to the former owners of the acquired business. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Derivative financial instruments

Cipher has issued warrants with a cashless exercise option. The warrants are treated as a derivative liability and therefore are measured at fair value. Gains and losses on re-measurement are presented separately in the consolidated statement of earnings and comprehensive income. These instruments are classified as non-current based on their expected life.

Critical accounting estimates

Provisions is a significant and complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for product returns are recognized in the period in which the underlying sales are recognized, as a reduction of product revenue. The Company estimates provisions for product 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 provisions.

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* 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 in shareholders' equity. The Company has presented the effects of the change in the presentation currency below.

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

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 the Company and its subsidiaries is the US dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates* .

	December 31, 2014 United States $	December 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
Total current assets	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 asset	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 income (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

	Three months		Six months	
	June 30, 2014 United States $	June 30, 2014 Canadian $	June 30, 2014 United States $	June 30, 2014 Canadian $
Revenues				
Licensing revenue	7,553	8,237	14,386	15,776
Product revenue	457	498	765	838
	8,010	8,735	15,151	16,614
Expenses				
Cost of products sold	137	149	228	249
Research and development	281	306	605	664
Selling and marketing	554	605	1,019	1,118
General and administrative	1,534	1,672	3,161	3,467
Amortization of intangible assets	173	189	345	379
Interest income	(111)	(121)	(204)	(224)
	2,568	2,800	5,154	5,653
Income before income taxes	5,442	5,935	9,997	10,961
Income taxes	1,311	1,430	2,362	2,590
Income for the period	4,131	4,505	7,635	8,371
Other comprehensive income	1,488	-	109	-
Income and other comprehensive income for the period	5,619	4,505	7,744	8,371
Basic earnings per share	$0.16	$0.18	$0.30	$0.33
Diluted earnings per share	$0.16	$0.17	$0.29	$0.32

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

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, 2017. 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 it 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.

3 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 principle business of Innocutis is a pharmaceutical and medical device company specializing in the development and commercialization of therapies and devices focused on medical treatment of dermatological conditions. The operating results of Innocutis have been consolidated with those of the Company effective April 13, 2015 and make up the U.S. segment. The total purchase price of $45,578 was paid in cash.

The goodwill of $6,730 arising from the acquisition is atributable 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 preliminary 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		6,730
Intangible assets		40,851
Accounts payable and accrued liabilities		(1,891)
Provision for product returns		(3,024)
Purchase price	$	45,578

The fair value of the identifiable intangible assets of $40,851 is provisional pending receipt of the final valuation for those assets.

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

Had Innocutis been consolidated from January 1, 2015, the consolidated statements of earnings and comprehensive income would show pro-forma revenue of $17,912 and income before income taxes of $518 for the six month period ended June 30, 2015.

4 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 June 30, 2015, the Company had gross financial assets of $390 and gross financial liabilities of $5,602 related to Galephar Pharmaceutical Research Inc. ("Galephar"). The net amount of $5,212 owing to Galephar has been recorded in accounts payable and accrued liabilities at June 30, 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.

In connection with the offering, the Company issued 600,000 common share purchase warrants to the lender. 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 June 30, 2015 were $4,141 and $3,749, respectively.

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

The variables used to compute the fair value as at April 13, 2015 and June 30, 2015 are as follows:

	April 13, 2015	June 30, 2015
Share price	$9.22	$8.56
Expected life	7.0 years	7.0 years
Expected volatility	83.6%	81.3%

The following is the continuity of the Notes for the period ended June 30, 2015:

Balance January 1, 2015	$ -
Draw down of Notes	40,000
Fair value of warrants on initial recognition	(4,141)
Deferred financing cost	(2,063)
Accretion expense	68
Balance June 30, 2015	$ 33,864

Total debt issuance costs associated with the Notes of $2,063 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.

As of June 30, 2015, the Company was not able to fulfill a financial covenant as stipulated under the Notes which constituted an event of default. Since the Company did not have an unconditional right to defer the settlement of the debt for at least 12 months, IFRS requires the liability to be classified as current as at June 30, 2015. The carrying amount of the debt is $33,864 as of June 30, 2015. On July 31, 2015, the Company received an irrevocable waiver of the covenant violation from its lender and as a result the lender cannot demand payment of the Notes as a result of the breach. No terms of the Notes were amended as a result of the waiver. The covenant relates to consolidated net revenues for the quarter ended June 30, 2015, which was $9 million and the Company reported consolidated net revenues of $8.835 million.

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 June 30, 2015, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, senior secured notes, and 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 (as defined under IFRS). Cash, accounts receivable, accounts payable and accrued liabilities are measured at amortized costs and their fair values approximate carrying values due to their short-term nature.

The senior secured notes are measured at amortized cost. At June 30, 2015, the fair value of the senior secured 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.

5 INTANGIBLE ASSETS

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 $237 was made upon execution of the agreement and, based on the likelihood of achievement, the second milestone for $197, which is based on a development milestone, was recorded during the six months ended June 30, 2015. 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 $4,891. 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 pruritus, 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 $27,257 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 $1,301 was made upon execution of the agreement and the transaction includes future milestones of up to $1,603 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.

	Product Rights and Other	Licensing and Intellectual Property Rights	Total
As at January 1, 2015			
Cost	$ 6,065	$ 849	$ 6,914
Accumulated amortization	(5,441)	-	(5,441)
Net book value	$ 624	$ 849	$ 1,473
For the six months ended June 30, 2015			
Opening net book value	$ 624	$ 849	$ 1,473
Acquisition (Note 3)	40,851	-	40,851
Additions	-	7,351	7,351
Amortization	(1,134)	(223)	(1,357)
Foreign exchange differences	-	(268)	(268)
Net book value	$ 40,341	$ 7,709	$ 48,050
As at June 30, 2015			
Cost	$ 46,916	$ 8,200	$ 55,116
Accumulated amortization	(6,575)	(491)	(7,066)
Net book value	$ 40,341	$ 7,709	$ 48,050

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND PROVISIONS

	As at June 30, 2015	As at December 31, 2014
Trade accounts payable	$ 8,849	$ 8,258
Accrued liabilities	1,923	1,444
	$ 10,772	$ 9,702

Provisions include product returns, rebates and other similar allowances. The provision for product returns relates to potential returns of product due to expiration or other return rights under the terms of distribution and supply agreements with customers. The adequacy of the provision is evaluated each quarter based on product sales activity and estimates of expiring products in the distribution chain. The following is the continuity of the balance for the six month period ended June 30, 2015:

Balance January 1, 2015	$ -
Acquired through business acquisition (Note 3)	3,024
Additional provisions during the period	492
Drawdowns of the provision during the period	(441)
Balance June 30, 2015	$ 3,075

7 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 June 30, 2015:

	Number of common shares (in thousands)	Amount $
Balance outstanding - January 1, 2014	24,976	10,223
Options exercised	668	2,926
Shares issued under the share purchase plan	29	289
Balance outstanding - December 31, 2014	25,673	13,438
Options exercised in Q1 2015	217	863
Shares issued in Q1 2015 under the share purchase plan	3	42
Options exercised in Q2 2015	64	191
Shares issued in Q2 2015 under the share purchase plan	6	55
Balance outstanding - June 30, 2015	25,963	14,589

Share purchase plan

During the three month period ended June 30, 2015, 5,555 shares were issued under the Employee and Directors Share Purchase Plan (7,766 in Q2 2014). Included in share-based compensation expense is $8 ($8 in Q2 2014), which is the discount on the shares issued under the share purchase plan during the three month period.

During the six month period ended June 30, 2015, 8,885 shares were issued under the Employee and Directors Share Purchase Plan (12,195 in 2014). Included in share-based compensation expense is $15 ($12 in 2014), which is the discount on the shares issued under the share purchase plan during the six month period.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2014 to June 30, 2015:

	Number of options (in thousands)	Weighted average exercise price $
Balance outstanding - January 1, 2014	1,619	2.52
Granted	516	7.61
Exercised	(668)	2.37
Cancelled	(183)	4.55
Balance outstanding - December 31, 2014	1,284	4.03
Granted	482	10.39
Exercised	(281)	2.05
Balance outstanding - June 30, 2015	1,485	6.19

At June 30, 2015, 551,466 options were fully vested and exercisable (844,466 at June 30, 2014).

During the three months ended June 30, 2015, the Company granted 244,713 stock options under the stock option plan, with exercise prices of $10.06 and $8.67, 25% of which vest on May 15 and June 24 of each year for the next four years, commencing in 2016, and expire in 2025. Total compensation cost for these stock options is estimated to be $1,357 which will be recognized on a graded basis over the vesting period of the stock options.

The stock options were valued using the Black-Scholes option pricing model at $6.38 and $5.26, with the following assumptions. Expected volatility is based on the Company's historical volatility, while estimated forfeitures are not considered significant.

Risk-free interest rate	1.15 %, 1.14%
Expected life	5.8 years
Expected volatility	73%, 69%
Expected dividend	Nil

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 June 30, 2015 is as follows:

	RSUs		PSUs	
	Number of Units (in 000's)	Fair Value $	Number of Units (in 000's)	Fair Value $
Balance at January 1, 2015	-	-	-	-
Granted	61	524	29	250
Balance at June 30, 2015	61	524	29	250

The total expense for RSUs and PSUs for the period ended June 30, 2015 was $9.

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

8 EXPENSES BY NATURE

	Three Months June 30, 2015	Three Months June 30, 2014	Six Months June 30, 2015	Six Months June 30, 2014
Employees salaries and other short term benefits	$ 2,342	$ 702	$ 3,155	$ 1,350
Directors fees	71	88	141	197
Share-based compensation	525	295	920	480
Depreciation of property and equipment	10	4	13	7
Amortization of intangible assets	1,221	174	1,357	346
Professional and consulting fees	1,666	539	3,125	1,045
Contract sales	233	225	431	443
Facility rent	41	25	56	42
Listing fees (TSX and NASDAQ)	30	-	127	43
Travel expenses	405	55	523	117
Insurance	168	119	296	167
Foreign exchange (gain) loss	(532)	127	(712)	(408)
Severance costs	293	-	293	895
Other transaction related costs	300	-	300	-
Other expenses	848	189	1,369	406
	$ 7,621	$ 2,542	$ 11,394	$ 5,130

9 COMPENSATION OF KEY MANAGEMENT

Key management includes directors and executives of the Company. The compensation paid or payable to key management for services is shown below:

	Three Months June 30, 2015	Three Months June 30, 2014	Six Months June 30, 2015	Six Months June 30, 2014
Salaries and short-term employee benefits, including bonuses	$ 388	$ 362	$ 863	$ 697
Directors fees	71	88	141	197
Share-based compensation	472	266	827	432
Severance costs	-	-	-	895
	$ 931	$ 716	$ 1,831	$ 2,221

Severance costs relate to the former President and Chief Executive Officer, following his resignation from the Company in 2014.

10 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.

11 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 three months ended June 30, 2015 was 25,919,087 (for the three months ended June 30, 2014 - 25,202,425). The weighted average number of shares outstanding for the six months ended June 30, 2015 was 25,878,902 (for the six months ended June 30, 2014 - 25,098,661).

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 number of shares outstanding for the three months ended June 30, 2015 was 26,474,471 (for the three months ended June 30, 2014 - 26,119,274). The dilutive weighted average number of shares outstanding for the six months ended June 30, 2015 was 26,503,509 (for the six months ended June 30, 2014 - 26,074,755).

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

12 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.

Three Months ending June 30, 2015

	Canada	United States	Total
External revenue by segment			
Licensing revenue	$ 6,318	$ -	$ 6,318
Product revenue	760	1,757	2,517
Net revenues	$ 7,078	$ 1,757	$ 8,835
Segment profit (loss) including amortization	$ 3,026	$ (2,746)	$ 280
Finance costs			(480)
Income taxes			(358)
Income (loss) for the period			$ (558)

Six Months ending June 30, 2015

	Canada	United States	Total
External revenue by segment			
Licensing revenue	$ 13,063	$ -	$ 13,063
Product revenue	1,415	1,757	3,172
Net revenues	$ 14,478	$ 1,757	$ 16,235
Segment profit (loss) including amortization	$ 6,466	$ (2,746)	$ 3,720
Finance costs			(345)
Income taxes			(1,430)
Income (loss) for the period			$ 1,945

Other financial information by segment:

	Canada	United States	Total
Total assets	$ 56,626	$ 49,607	$ 106,233

CORPORATE DIRECTORY

MANAGEMENT

Shawn Patrick O'Brien
President and Chief Executive Officer

Norman Evans, C.A.
Chief Financial Officer

Joan Chypyha
President and GM, Canada

Linda Angaritis
Vice President, Global Regulatory Compliance and Quality

Louise Blythe
Vice President, Regulatory Affairs

Lynne Bulger
Vice President, Medical and Clinical Affairs

Lorne Markowitz
Vice President, Marketing and Sales

Brian Rosenberger
Vice President, Alliance and Strategic Portfolio Management

Peter Weiler
Vice President, Business Development

MANAGEMENT USA

Joe Pecora
President and GM, USA

Mark Spina
Senior Vice President, Finance & Treasury

Elizabeth Prout
Vice President, Finance and HR

Chuck Jenkins
Vice President, Marketing

Daniel Ward
Medical Director

Mark Reed
Director of Sales

Art Waite
Director of Operations

BOARD OF 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

Thomas Wellner
Director

Stephen Wiseman, CPA, CA
Director

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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