Cipher Pharmaceuticals Inc.

Consolidated Financial Statements

December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Cipher Pharmaceuticals Inc. ("Cipher") and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in this Annual Report and has ensured that it is consistent with the consolidated financial statements.

Management, under the supervision of the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO") of Cipher, are responsible for establishing and maintaining adequate internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in issuers' Annual and Interim Filings, and have designed such internal control over financial reporting (or caused it to be designed under their supervision) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

Management evaluated, under the supervision of and with the participation of the CEO and the CFO, the effectiveness of the Company's internal control over financial reporting as at December 31, 2017, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on that evaluation, the CEO and the CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2017.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee (the "Committee").

The Committee is appointed by the Board, and all of its members are independent unrelated directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting items, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors on behalf of the shareholders. PricewaterhouseCoopers LLP has full and free access to the Committee.

(Signed) *"Robert Tessarolo"*

Robert Tessarolo
President and Chief Executive Officer

(Signed) *"Stephen Lemieux"*

Stephen Lemieux, CPA, CA
Chief Financial Officer

February 27, 2018

Independent Auditor's Report

To the Shareholders of
Cipher Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of Cipher Pharmaceuticals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cipher Pharmaceuticals Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Cipher Pharmaceuticals Inc.
Consolidated Statements of Financial Position

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

	Note	2017	2016
		$	$
ASSETS			
Current assets			
Cash	6, 7	**28,241**	34,486
Accounts receivable		**21,906**	14,644
Inventory	8	**488**	1,272
Prepaid expenses and other assets		**1,519**	1,767
Other receivable	6	**1,700**	-
		53,854	52,169
Property and equipment, net	9	**266**	790
Intangible assets, net	10, 11	**5,400**	17,582
Deferred tax assets	16	**3,610**	6,864
Total assets		**63,130**	77,405
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6, 12	**18,705**	16,003
Provisions	6, 12	**1,651**	4,769
Current portion of credit facility	7	**6,664**	-
Current portion of deferred revenue		**177**	176
		27,197	20,948
Deferred revenue		**312**	487
Senior secured notes	7	**-**	36,377
Credit facility	7	**11,456**	-
Derivative financial instrument	7	**549**	583
Other long term liabilities	6	**680**	996
Total liabilities		**40,194**	59,391
SHAREHOLDERS' EQUITY			
Share capital	13	**18,020**	16,192
Contributed surplus		**4,715**	6,024
Accumulated other comprehensive loss		**(9,514)**	(9,514)
Retained earnings		**9,715**	5,312
Total shareholders' equity		**22,936**	18,014
Total liabilities and shareholders' equity		**63,130**	77,405
Commitments and Contingencies	**18**		

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

Approved on behalf of the Board:

(Signed) "Mark Beaudet"

Mark Beaudet
Chair of the Board

(Signed) "Harold Wolkin"

Harold Wolkin
Director

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

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

	Note	2017	Note 2, 6 2016
		$	$
Revenues			
Licensing revenue	18	**35,028**	25,555
Product revenue		**5,292**	4,096
Net revenues		**40,320**	29,651
Operating expenses			
Cost of products sold	8	**1,903**	1,937
Research and development		**394**	573
Selling, general and administrative	14	**12,782**	15,602
Total operating expenses		**15,079**	18,112
Other expenses (income)			
Interest expense	7	**5,300**	7,777
Change in fair value of derivative financial instrument	7	**(34)**	(1,175)
Interest income		**(8)**	(54)
Loss on debt extinguishment	7	**5,223**	-
Impairment of intangible assets	11	**561**	-
Foreign exchange gain		**(66)**	(720)
Total other expenses		**10,976**	5,828
Income before income taxes from continuing operations		**14,265**	5,711
Current income tax expense	16	**264**	-
Deferred income tax expense	16	**3,254**	1,492
Total income tax expense		**3,518**	1,492
Income and comprehensive income from continuing operations		**10,747**	4,219
Loss and comprehensive loss from discontinued operations	6	**(6,344)**	(43,368)
Income (loss) and comprehensive income (loss) for the year		**4,403**	(39,149)
Income from continuing operations per common share	17		
Basic		**0.40**	0.16
Diluted		**0.40**	0.16
Loss from discontinued operations per common share	17		
Basic		**(0.23)**	(1.65)
Diluted		**(0.24)**	(1.65)
Income (loss) and comprehensive income (loss) per common share	17		
Basic		**0.17**	(1.49)
Diluted		**0.16**	(1.49)

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

Cipher Pharmaceuticals Inc.

Consolidated Statements of Changes in Shareholders' Equity

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

	Note	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
		000's	**$**	**$**	**$**	**$**	**$**
Balance, January 1, 2016		26,058	14,947	4,363	(9,514)	44,461	54,257
Loss for the year		-	-	-	-	(39,149)	(39,149)
Exercise of stock options	13	116	521	(253)	-	-	268
Shares issued under the share purchase plan	13	103	458	-	-	-	458
Shares issued under the restricted share unit plan	13	36	266	(266)	-	-	-
Share-based compensation expense	13	-	-	2,180	-	-	2,180
Balance, December 31, 2016		26,313	16,192	6,024	(9,514)	5,312	18,014
Income for the year		-	-	-	-	4,403	4,403
Exercise of stock options	13	301	1,325	(752)	-	-	573
Shares issued under the share purchase plan	13	34	126	-	-	-	126
Shares issued under the restricted share unit plan	13	73	377	(377)	-	-	-
Share-based compensation expense	13	-	-	(180)	-	-	(180)
Balance, December 31, 2017		**26,721**	**18,020**	**4,715**	**(9,514)**	**9,715**	**22,936**

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

Cipher Pharmaceuticals Inc.
Consolidated Statements of Cash Flows

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

	Note	2017	Note 6 2016
		$	$
Operating activities			
Income for the year from continuing operations		**10,747**	4,219
Items not affecting cash:			
Depreciation of property and equipment	9	**136**	113
Amortization of intangible assets	10	**831**	1,008
Impairment of intangible assets	11	**561**	-
Share-based compensation	13	**338**	1,406
Foreign exchange loss (gain) on cash		**35**	(10)
Change in fair value of derivative		**(34)**	(1,175)
Loss on debt extinguishment	7	**5,223**	-
Interest expense		**5,300**	7,777
Deferred income taxes	16	**3,254**	1,492
Changes in non-cash operating items:			
Accounts receivable		**(9,712)**	1,871
Inventory		**288**	(212)
Prepaid expenses and other assets		**(79)**	(84)
Accounts payable and accrued liabilities		**3,216**	1,939
Deferred revenue		**(174)**	(182)
Net cash provided by operating activities		**19,930**	18,162
Investing activities			
Purchase of property and equipment		**(54)**	(34)
Acquisition of intangible assets		**(148)**	(75)
Net cash received from disposal of assets	6	**9,339**	-
Net cash provided by (used in) investing activities		**9,137**	(109)
Financing activities			
Interest payments		**(2,374)**	(4,168)
Repayment of senior secured notes	7	**(44,500)**	-
Proceeds from credit facility, net	7	**19,760**	-
Repayment of credit facility	7	**(1,666)**	-
Payment of finance lease liability		**(37)**	(32)
Proceeds from shares issued under the share purchase plan		**107**	389
Proceeds from exercise of stock options		**573**	268
Net cash used in financing activities		**(28,137)**	(3,543)
Cash used in discontinued operations	6	**(7,140)**	(7,216)
(Decrease) increase in cash		**(6,210)**	7,294
Impact of foreign exchange on cash		**(35)**	10
Cash, beginning of year		**34,486**	27,182
Cash, end of year		**28,241**	34,486

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

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

1. NATURE OF OPERATIONS

Cipher Pharmaceuticals Inc. ("Cipher") and its subsidiaries (together the "Company") is a specialty pharmaceutical company with a diversified portfolio of commercial and early to late stage products. The Company acquires products that fulfill unmet medical needs, manages the required clinical development and regulatory approval process, and markets those products either directly in Canada and the United States ("U.S.") or indirectly through partners in the U.S., Canada and Latin America. The Company is building its business through product licensing and acquisitions. Cipher was incorporated under the Business Corporations Act of Ontario on January 9, 2004 and is located at 2345 Argentia Road, Mississauga, Ontario.

On May 1, 2017, the Company, through its wholly owned subsidiary Cipher Pharmaceuticals US LLC (“Cipher U.S.”) sold substantially all of the assets of its U.S. segment. The Company no longer directly markets products in the U.S.

2. BASIS OF PREPARATION

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Board of Directors approved these consolidated financial statements on February 27, 2018.

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

The financial statements have been prepared on a going concern basis under the historical cost convention, except for certain financial instruments, which are measured at fair value as described below. Management assesses the Company’s ability to continue as a going concern at each reporting date, using quantitative and qualitative information available.

The consolidated financial statements include the accounts of the Company and its wholly owned legal subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

Reclassification of comparative period presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations, only classifications of certain operating expenses. Specifically, selling and marketing have been combined with general and administrative (G&A), which is now reflected in selling, general and administrative (“SG&A”). In addition, certain SG&A costs have been reclassified to research and development costs to align with expenses associated with our pipeline products. Product distribution costs previously recognized in SG&A, have been reclassified to cost of products sold.

The following table shows the net impact of the reclassification of expenses discussed above:

	Dec 31, 2016 Reclassification	Dec 31, 2016	Net change
Operating expenses	$	$	$
Costs of products sold	1,937	1,785	152
Research and development	573	298	275
Selling and marketing	-	3,661	(3,661)
General and administrative (SG&A)	15,602	12,368	3,234
Total operating expenses	18,112	18,112	-

Discontinued operations

The Company reports financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs when the disposal of a component or a group of components of the Company represents a strategic shift that will have major impact on the Company’s operations and financial results, and where the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

The results of discontinued operations are excluded from both continuing operations and business segment information in the consolidated financial statements and the notes to the consolidated financial statements, unless otherwise noted, and are presented net of tax in the statement of income (loss) and comprehensive income (loss) for the current and comparative year. Refer to Note 6 Discontinued Operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currencies

The consolidated financial statements are presented in United States dollars ("U.S. dollars"), which is the Company's functional currency. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars using the exchange rate in effect at the transaction date.

Monetary assets and liabilities are translated using the rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the consolidated statement of income (loss) and comprehensive income (loss).

Financial instruments

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

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

i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. The Company's derivative financial instrument is classified as a financial liability at fair value though profit and loss. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of income (loss) and comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statements of income (loss) and comprehensive income (loss) in the period in which they arise.

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

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

iv) Financial liabilities at amortized cost: This classification includes accounts payable and accrued liabilities, other long-term liabilities and the senior secured notes (the "Notes"), that was replaced by the Credit Facility during the year. Financial liabilities at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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.

Determination of fair value

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that are supported by little or no market activity.

At December 31, 2017, the Company's financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities, the Credit Facility and a derivative financial instrument. The derivative financial instrument is measured at fair value with any changes recognized through the statements of income (loss) and comprehensive income (loss) and is classified as Level 2. Cash, accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and the credit facility are measured at amortized cost and their fair values approximate carrying values.

Impairment of financial assets

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

Cash

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

Accounts receivable

Accounts receivable consist of amounts due from licensing partners for royalties and product sales in the normal course of business. Trade receivables are carried at amounts due, net of a provision for amounts estimated to be uncollectible.

Inventory

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

Prepaid expenses and other assets

Prepaid expenses consist of amounts paid in advance for items that have future value to the Company, such as insurance policy payments, subscription-based fees, U.S. Food and Drug Administration fees and deposits.

Property and equipment

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

Computer equipment	3 years
Vehicles	4 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease

Intangible assets

Intangible assets include product rights that consist of marketing and other rights relating to products and licensing rights and these are recorded at cost less accumulated amortization and accumulated impairment losses. Intangible assets have a finite life and are amortized using the straight-line method over their estimated useful lives. The useful lives of the intangible assets are reviewed at least annually. Amortization is recognized straight-line over the contract term or life of the patent, as applicable.

Amortization of intangible assets is recorded as follows:

Product rights	Straight line over 5 to 8 years
Licensing and intellectual property rights	Straight line over 3 to 18 years

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGU). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Provisions

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

Deferred revenue

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

Share capital

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

Revenue recognition

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

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

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

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

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

Cost of products sold

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

Research and development

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

Income taxes

Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset or liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Stock-based compensation

The fair value of options granted to employees and directors is estimated on the date of the grants using the Black-Scholes option pricing model. Stock options vest over four years (25% per year), expire after seven or ten years and can only be settled in common shares. Each tranche in an award is considered as a separate award with its own vesting period and grant date fair value. Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed annually, with any impact being recognized immediately. Stock option forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based compensation expense is included within the respective functional departments in operating expenses in the statements of income (loss) and comprehensive income (loss) and in contributed surplus in the statements of financial position. The consideration received on the exercise of stock options is credited to share capital at the time of exercise.

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

Performance share units ("PSUs") are notional common shares of the Company issued to senior employees of the Company. The fair value of PSU's granted to employees is estimated on the date of grant using a Monte Carlo simulation. PSUs cliff vest three or four years from the date of grant and can only be settled in common shares. Awards of PSUs are dependent upon the achievement of performance targets set by the Board of Directors for a two or three year period. Compensation expense is recognized over the three year vesting period for the PSUs based on the progress towards achieving the performance targets.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases. The capitalized finance lease obligation reflects the present value of future lease payments, discounted at the appropriate interest rate. Assets under finance leases are amortized over the term of the lease.

All other leases are accounted for as operating leases with rental payments being expensed on a straight-line basis.

Termination benefits

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Earnings per share

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

Accounting standards issued but not yet adopted

IFRS 15, Revenue from Contracts with Customers: This standard replaces International Accounting Standards ("IAS") 11 *Construction Contracts*, IAS 18, *Revenue* and IFRIC 13, *Customer Loyalty Programmes* and was issued in May 2014. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The Company will adopt this accounting standard on January 1, 2018, using the full retrospective approach. The Company assessed the impact of adopting this standard on its licensing revenue as certain milestone payments which were previously deferred and amortized over a relevant period, will be recognized at the point-in-time of transfer of control to the customer. Therefore, licensing revenue for the year ended December 31, 2017 is expected to be reduced by $150 subsequent to adoption. Additionally, the current and long-term portion of the deferred revenue on the consolidated statements of financial position will be adjusted to opening retained earning to reflect recognition at the point in time when control was transferred. The Company assessed that it continues to act as an agent in its relationship with Galephar under IFRS 15, *Revenue from Contracts with Customers* and accordingly will continue to report revenue on a net basis.

IFRS 9, Financial Instruments: The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, There is no significant impact upon adoption.

IFRS 16, Leases: In January 2016, the IASB published a new standard, IFRS 16. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the balance sheet for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has determined that its vehicle and facility leases will be recorded on the consolidated statements of financial position upon adoption and its low dollar value leases will continue to be expensed as incurred.

IFRS 2, Share-based Payment: In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. The Company does not expect these amendments to have a material impact on the consolidated financial statements upon adoption.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

i) Revenue recognition: The provision for returns is a complex estimate used in the recognition of revenue. The Company has a returns policy that allows wholesalers to return product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue. The Company estimates provisions for returns based upon historical experience, representing management's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Company continually monitors provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

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

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

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

5. RISK MANAGEMENT

Financial risk management

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

i) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant concentration of credit risk consist of cash, accounts receivable and other receivables. The Company's investment policies are designed to mitigate the possibility of deterioration of principal, enhance the Company's ability to meet its liquidity needs and provide high returns within those parameters. Cash is on deposit with Canadian and U.S. chartered banks. Management monitors the collectability of accounts receivable and other receivables, and estimates an allowance for doubtful accounts.

As at December 31, 2017, the allowance for doubtful accounts was nil (2016 - nil) and the accounts that were past due was nil (2016 - nil).

The Company has concentration risk, as approximately 75% of total revenues and 87% of total accounts receivable came from one licensing partner.

ii) Liquidity risk

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

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

The following table outlines the Company's undiscounted contractual obligations as at December 31, 2017.

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

Description	Less than one year	Years two and three	Beyond three years	Total
	$	$	$	$
Accounts payable and accrued liabilities	18,218	-	-	18,218
Other long term liabilities	-	611	-	611
Finance lease obligations	52	70	3	125
Credit facility	6,664	11,670	-	18,334
Total	24,934	12,351	3	37,288

The current portion of finance lease obligations are recorded at the net present value of $47 (2016 - $42) in accounts payable and accrued liabilities. The non current portion of the finance lease obligation of $69 (2016 - $102) is recorded in other long term liabilities. The balance of the other long term liabilities is discounted to $591 (2016 - $102). The discount rate used for the finance lease obligation and other long-term liabilities was 3.25% and 1.85%, respectively.

iii) Market risk

Currency risk - The Company is exposed to currency risk related to the fluctuation of foreign exchange rates. The Company operates primarily in U.S. dollars. The Company is exposed to currency risk through its net assets denominated in Canadian dollars ("CDN $"). A change of 10 basis points in the U.S./CDN exchange rate on December 31, 2017 balance would have had a $210 impact on net income (loss). The following is a summary of the net financial assets denominated in Canadian dollars as of December 31, 2017:

	CDN$
Cash	675
Accounts receivable	881
Accounts payable and accrued liabilities	(3,510)
Finance lease obligations	(146)
Net financial assets	(2,100)

iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit facility bears interest that is pegged to LIBOR and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates. A change of 100 basis points in the LIBOR would increase the annual interest expense by $31.

v) Capital risk management

The Company's managed capital is comprised of cash, the credit facility and shareholders' equity. The Company's objective when managing its capital structure is to safeguard its ability to continue as a going concern in order to provide returns for shareholders, finance strategic growth plans and financial obligations as they become due. In order to maintain or adjust the capital structure, the Company may issue new common shares from time to time. Historically, the Company relied on cash on hand, cash flows from operations and debt financing to finance growth initiatives.

6. DISCONTINUED OPERATIONS

On May 1, 2017, the Company entered into an Asset Purchase Agreement (the "U.S. APA") and completed the sale of substantially all of the assets comprising the U.S. segment. In accordance with the terms of the U.S. APA, the purchase price of $13,600 was subject to customary working capital adjustments and other transferred liabilities as defined in the U.S. APA**.** The Company retained responsibility for certain liabilities and commitments. On closing, the Company received $7,619 in cash.

The terms of the U.S. APA, include a hold back of $1,700, which will be settled 18 months from the date of closing and an additional regulatory milestone of up to $750 if certain predefined conditions are achieved. The hold back of $1,700 is classified as other receivable in the consolidated statements of financial position. During the fourth quarter, the regulatory milestone was achieved and the Company received an additional $740, net of administrative costs. The following table summarizes the assets and liabilities disposed of and the calculation of the gain on sale after the final working capital adjustments and achievement of the regulatory milestone. The total cash consideration received to date is $9,339.

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

	$
Purchase price	14,340
Less: contractual working capital requirement	(2,801)
Cash consideration	11,539
Working capital, net	1,019
Property and equipment, net	(100)
Intangible assets, net	(10,385)
Transaction costs	(1,000)
Gain on disposal	**1,073**

The following table summarizes the balances retained by the Company as at December 31, 2017, which are included in the consolidated statements of financial position:

	$
Accounts payable and accrued liabilities	2,693
Provisions	1,651
Other long-term liabilities	611
Total	4,955

Accounts payable and accrued liabilities and other long-term liabilities includes provisions for onerous contracts, amounts due to former customers for product returns and vendors. Provisions reflects future product returns that were retained by the Company. During the year, the Company received $980, which was attributable to the working capital adjustment.

A reconciliation of the major classes of line items constituting income from discontinued operations, net of tax, as presented in the consolidated statements of income (loss) and comprehensive income (loss) is as follows:

	Dec 31, 2017	Dec 31, 2016
	$	$
Net revenues	**1,339**	11,089
Operating expenses	**8,756**	54,457
Loss before gain on disposal	**7,417**	43,368
Gain on disposal	**(1,073)**	-
Loss before income taxes	**6,344**	43,368
Income taxes	**-**	-
Loss and comprehensive loss from discontinued operations	**6,344**	43,368

Included in loss and comprehensive loss from discontinued operations during the year ended December 31, 2016 are impairment charges relating to goodwill and intangible assets in the amount of $6,112 and $23,111, respectively recorded in operating expenses.

Disclosures with respect to the consolidated statements of cash flows are as follows:

	Dec 31, 2017	Dec 31, 2016
	$	$
Net cash flows attributable to:		
Operating activities	**(7,132)**	(6,689)
Investing activities	**(8)**	(527)
Cash used in discontinued operations	**(7,140)**	(7,216)

7. SENIOR SECURED NOTES AND CREDIT FACILITY

On March 31, 2017, the Company entered into its sixth amendment to the Securities Purchase Agreement (the “Amendment”) with its lender to amend the terms of the Notes under the original Securities Purchase Agreement (the “Original SPA”), dated April 13, 2015. In connection with the Amendment, the Company prepaid $20,000 of the outstanding Notes balance on April 5, 2017. The Amendment was accounted for as an extinguishment, as the terms of the amended agreement were substantially different. Therefore, the unamortized costs related to the Notes were accelerated and recognized as part of the loss on extinguishment. In addition, on April 5, 2017, the Company paid the 5% borrowing fee of $1,000, the 5% prepayment penalty of $1,000 and an amendment fee of $500. In consideration for the prepayment, the lender modified the financial covenants and removed its security interest in the U.S. segment assets.

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

On November 3, 2017, the Company entered into a Credit Agreement, with a Canadian lender to extinguish its existing Notes and replace with a credit facility ("Credit Facility"). In connection with the Credit Agreement, the Company used the proceeds of $20,000 to fully extinguish the remaining balance of the Notes. Pursuant to the Original SPA, the Company paid a prepayment penalty of $1,000 and a borrowing fee of $1,000. The Credit Facility has a three-year term, carrying an interest rate of LIBOR plus an applicable margin ranging from 1.5% - 2.5% based on the total debt to EBITDA ratio, as defined in the Credit Agreement. Principal and interest payments are payable quarterly in arrears. The facility also carries an accordion feature that allows for an additional US$10.0 million of capacity, subject to customary terms and conditions. The Company is subject to certain financial and non-financial covenants, including total debt to EBITDA ratio, minimum fixed charge coverage ratio and minimum shareholders' equity as defined per the Credit Agreement. The Credit Facility is secured by the assets of the Company. The total transaction costs incurred were $240. The interest rate applicable in the fourth quarter was 2.8%. The effective interest rate was 3.58%.

The following is the continuity of the Notes from January 1, 2016 to December 31, 2017:

	$
Balance, January 1, 2016	34,578
Interest expense	4,168
Interest paid	(4,168)
Imputed interest accretion	1,799
Balance, December 31, 2016	36,377
Interest expense	2,282
Interest paid	(2,282)
Prepayment penalty	1,000
Imputed interest accretion	1,900
Loss on extinguishment	5,223
Repayment	(44,500)
Balance, December 31, 2017	**-**

The following is the continuity of the Credit Facility for the year ended December 31, 2017:

	$
Balance, January 1, 2017	-
Proceeds, net	19,760
Interest expense	92
Interest paid	(92)
Imputed interest accretion	26
Repayment	(1,666)
Balance, December 31, 2017	**18,120**
Current portion	6,664
Long term portion	11,456

Derivative financial instrument

Under the terms of the Original SPA, the Company issued 600,000 common share purchase warrants to the lender with an option for a cashless exercise in which the settlement price caused the conversion ratio to be variable. Accordingly, the warrants are classified as a financial liability. Gains and losses on re-measurement are presented separately in the consolidated statements of income (loss) and comprehensive income (loss). The exercise price of the warrants is $9.22 (equal to the five-day volume-weighted average price on the Toronto Stock Exchange prior to closing, converted to U.S. dollars), which expire seven years from the date of issuance. A pricing model with observable market-based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants as at December 31, 2017 and December 31, 2016 were $549 and $583, respectively.

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

The variables used to compute the fair value are as follows:

	Dec 31, 2017	Dec 31, 2016
Share price	$3.91	$3.65
Expected life	4.2 years	5.2 years
Volatility	56.4%	56.0%

8. INVENTORY

Inventory consists of the following:

	Dec 31, 2017	Dec 31, 2016
	$	$
Finished goods	**836**	1,953
Raw materials	**-**	128
Obsolescence provision	**(348)**	(809)
	488	1,272

Inventory amounts recorded to cost of products sold during the year is $1,409 (2016 - $1,128). There was a reversal of inventory obsolescence provision of $18 (2016 - nil) was recorded directly to cost of products sold. The reversal arose from certain product sales that exceeded the budget to which the provision was originally based upon.

9. PROPERTY AND EQUIPMENT

	Computer Equipment	Vehicles	Furniture and Fixtures	Leasehold Improvements	Total
Cost	$	$	$	$	$
Balance, December 31, 2015	271	-	226	59	556
Additions	197	176	315	45	733
Disposals	(33)	-	(83)	-	(116)
Balance, December 31, 2016	435	176	458	104	1,173
Additions	46	33	6	2	87
Disposals	-	(24)	-	-	(24)
Disposal of U.S. Segment	(234)	-	(320)	(43)	(597)
Balance, December 31, 2017	**247**	**185**	**144**	**63**	**639**
Accumulated depreciation					
Balance, December 31, 2015	162	-	101	7	270
Depreciation	94	28	84	23	229
Disposals	(33)	-	(83)	-	(116)
Balance, December 31, 2016	223	28	102	30	383
Depreciation	43	44	30	19	136
Disposals	-	(5)	-	-	(5)
Disposal of U.S. Segment	(74)	-	(62)	(5)	(141)
Balance, December 31, 2017	**192**	**67**	**70**	**44**	**373**
Net book value					
As at December 31, 2016	212	148	356	74	790
As at December 31, 2017	**55**	**118**	**74**	**19**	**266**

Depreciation expense of $136 (2016 - $113) is recorded in SG&A in the consolidated statements of income (loss) and comprehensive income (loss). During the year, the Company wrote off fully depreciated assets no longer in use of nil (2016 - $2).

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

The disposal of the U.S. segment includes property and equipment that was sold with a net book value of $100, write offs of property and equipment of $309 which were impaired after the sale and depreciation expense for the period prior to the sale of $47.

10. INTANGIBLE ASSETS

In 2016, the Company acquired the worldwide rights from Dalhousie University to develop and commercialize an investigational tattoo removal cream product. An upfront payment of $75 was made upon execution of the agreement and the transaction includes potential milestones of up to CDN$3,600 based on future regulatory and commercial sales milestones, as well as royalties on commercial sales.

In 2017, the Company received a Notice of Compliance from Health Canada, approving the sale of OZANEX™. The Company paid a $148 development milestone to Ferrer upon obtaining regulatory approval in Canada. Under this agreement, all milestones have been paid.

	Product Rights	Licensing and Intellectual Property Rights	Total
Cost	$	$	$
Balance, December 31, 2015	47,902	8,024	55,926
Additions	-	75	75
Disposals	(151)	-	(151)
Balance, December 31, 2016	47,751	8,099	55,850
Additions	-	148	148
Impairment (Note 11)	-	(698)	(698)
Disposal of U.S. Segment	(41,919)	-	(41,919)
Balance, December 31, 2017	**5,832**	**7,549**	**13,381**
Accumulated amortization and impairment			
Balance, December 31, 2015	9,219	593	9,812
Amortization	4,573	923	5,496
Impairment (Note 6)	23,111	-	23,111
Disposals	(151)	-	(151)
Balance, December 31, 2016	36,752	1,516	38,268
Amortization	61	770	831
Impairment (Note 11)	-	(137)	(137)
Disposal of U.S. Segment	(30,981)	-	(30,981)
Balance, December 31, 2017	**5,832**	**2,149**	**7,981**
Net book value			
As at December 31, 2016	10,999	6,583	17,582
As at December 31, 2017	**-**	**5,400**	**5,400**

Amortization expense of $831 (2016 - $5,496, of which $1,008 relates to continuing operations) is recorded to SG&A in the consolidated statements of income (loss) and comprehensive income (loss). During the year, the Company wrote off fully amortized product rights no longer in use of nil (2016 - $151). The average remaining amortization period of the intangible assets is approximately 8.5 years.

The disposal of the U.S. segment includes amortization expense of $553 recorded prior to its classification of held for sale and intangible assets sold in the disposal of the U.S. operations with a net book value of $10,385.

11. IMPAIRMENT OF INTANGIBLE ASSETS

During 2017, the Company completed its assessment of the Melanovus oncology assets acquired in 2014 and decided not to continue with this program. The Company provided to the seller, notice of termination and after completion of the 90-day notice period, the agreement is now terminated. Accordingly, the Company wrote off the net book value of these assets in the amount of $561 in other expenses (income) in the consolidated statements of income (loss) and comprehensive income (loss).

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

12. PROVISIONS

Provisions relates to estimates made for product returns. The provision for product returns relates to potential returns due to expiration or other return rights under the terms of distribution and supply agreements with customers, taking into account historical returns. The adequacy of the provisions is evaluated based on product sales activity and estimates of expiring products in the distribution chain.

The comparative period includes provisions for rebates, which were assumed in the disposal of the U.S. segment.

The following is the continuity of the provisions for the year ended December 31, 2017:

	$
Balance, December 31, 2015	4,423
Additions	10,013
Payments	(9,667)
Balance, December 31, 2016	4,769
Additions	1,672
Payments	(1,945)
Rebates assumed in the disposal of U.S. segment	(1,316)
Transferred to accounts payable and accrued liabilities	(1,529)
Balance, December 31, 2017	**1,651**

Amounts transferred to accounts payable and accrued liabilities represents returns that have been approved but not yet paid. There is no comparable number in 2016, as customers settled their accounts receivable balance net of returns.

13. SHARE CAPITAL

Authorized share capital

The authorized share capital consists of an unlimited number of preference shares, issuable in series, and an unlimited number of voting common shares, with no par value.

The Company has three stock-based compensation plans: The Stock Option Plan ("SOP"), the Employee and Director Share Purchase Plan (“ESPP”) and the Restricted Share Units and Performance Share Units ("PR Plan").

On May 6, 2016, shareholders of Cipher approved resolutions which provide that the maximum number of common shares issuable in aggregate pursuant to outstanding awards or grants under the SOP, the ESPP and the PR Plan at any time shall be 15% of the number of common shares then issued and outstanding.

Share purchase plan

The Company's ESPP allows employees and directors to share in the growth of the Company through share ownership. Through the ESPP, employees and directors may contribute amounts to purchase common shares of the Company at a 15% discount from the prevailing trading price. Plan members must hold their shares for a period of at least six months before they can be sold. During the year ended December 31, 2017, 34,296 common shares were issued under the ESPP (2016 - 102,466). Included in share-based compensation expense is $19 (2016 - $69), which is the discount on the common shares issued during the year.

Stock option plan

The following is a summary of the changes in the stock options outstanding from January 1, 2016 to December 31, 2017:

	Number of options (in 000's)	Weighted average exercise price CDN$
Balance, January 1, 2016	1,414	6.39
Granted during the year	688	4.94
Exercised during the year	(116)	2.49
Forfeited/expired during the year	(429)	5.70
Balance, December 31, 2016	1,557	6.39
Granted during the year	544	5.08
Exercised during the year	(388)	2.98
Forfeited/expired during the year	(1,110)	8.36
Balance, December 31, 2017	**603**	**5.80**

As at December 31, 2017, 146,711 options were fully vested and exercisable (2016 - 858,994).

During 2017, the Company granted 544,167 stock options under the SOP. The options vest over a four-year period from the grant date, at a rate of 25% per year and expire seven or ten years from the day of grant. The expected volatility is based on the Company's historical volatility over a comparable period based on expected life. There is no expected dividend. The exercise price and Black Scholes assumptions are as follows:

Grant date	Number granted	Exercise price (CDN$)	Black Scholes value (CDN$)	Risk-free interest rate	Expected life	Expected volatility
May 15, 2017	436,811	$5.06	$1.84	0.94%	4.9 years	49.6%
August 15, 2017	85,898	$5.24	$1.93	1.50%	4.9 years	49.5%
August 28, 2017	13,474	$5.00	$1.81	1.50%	4.9 years	48.6%
November 6, 2017	7,984	$4.64	$1.57	1.73%	4.9 years	47.7%

Total compensation cost for these stock options is $758, which will be recognized on a graded basis over the vesting period of the stock options. The total recovery for stock options for the year ended December 31, 2017 was $107 (2016 - expense of $1,440).

The following information relates to stock options that were outstanding as at December 31, 2017:

Range of exercise prices	Number of options (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price
CDN$			CDN$
1.05 - 4.60	16	3.8	1.79
4.61 - 6.20	465	8.7	5.25
6.21 - 13.88	122	6.6	8.45
	603	6.6	5.80

During the year, 388,127 were exercised for 300,999 common shares (2016 - 115,966 stock options exchanged for 115,966 common shares). The Company's stock option plan provides that an option holder may elect to receive a number of shares equivalent to the growth value of vested options, which is the difference between the market price and the exercise price of the options. The total cash consideration received by the Company for stock option exercises in 2017 was $573 (2016 - $268).

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

On May 13, 2015, the Company adopted a RSU and PSU plan. RSU's and PSU's are notional share units exchangeable for common shares of the Company. RSU's are granted to all employees and directors of the Company and PSU's are granted to certain executives. RSU's granted to employees vest annually over a three or four-year period and RSU's granted to directors' vest over a one-year period. PSU's vest based upon the achievement of financial performance goals for the Company for the three years ended December 31, 2018. If certain targets are achieved, up to four times the PSU's granted will be exchanged for an equal number of common shares.

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

On September 19, 2017, 63,282 PSUs were granted to key management personnel that vest October 2020 upon the achievement of certain market based performance goals, however if not achieved the performance date extends to October 2021. If certain targets are achieved by October 2020, up to 5 times the number of PSUs granted will be awarded, the award is reduced by 50% if performance period extends to October 2021. Each PSU can be exchanged for an equal number of common shares. The determination of the number of common shares that will ultimately vest was based on weighted average probabilities.

A summary of the RSU's and PSU's granted and outstanding as at December 31, 2017 is as follows:

	RSU's Number of units	**PSU's Number of units**
	000's	000's
Balance, January 1, 2016	59	25
Granted during the year	292	118
Vested during the year	(36)	-
Forfeited/cancelled during the year	(113)	(65)
Balance, December 31, 2016	202	78
Granted during the year	138	63
Vested during the year	(73)	-
Forfeited/cancelled during the year	(164)	(76)
Balance, December 31, 2017	**103**	**65**

The total recovery for RSU's and PSU's for the year ended December 31, 2017 was $73 (2016 - expense of $740).

14. EXPENSES BY NATURE

The consolidated statements of income (loss) and comprehensive income (loss) include the following expenses by nature:

Employee salaries and benefits expenses

	Dec 31, 2017	Dec 31, 2016
	$	$
Salaries, bonuses and benefits	**3,758**	4,024
Share-based compensation	**338**	1,406
Termination benefits	**1,126**	963
Total employee costs	**5,222**	6,393

For the years ended December 31, 2017 and 2016, all employee salaries and benefits are recorded in selling, general and administrative in the consolidated statements of income (loss) and comprehensive income (loss).

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

15. COMPENSATION OF KEY MANAGEMENT

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

	Dec 31, 2017	Dec 31, 2016
	$	$
Salaries, bonuses and benefits	**1,051**	986
Share-based compensation	**386**	1,013
Directors fees	**243**	368
Termination benefits	**289**	870
	1,969	3,237

16. INCOME TAXES

The components of the income tax expense are as follows:

	Dec 31, 2017	Dec 31, 2016
	$	$
Current income tax expense	**264**	-
Deferred income tax expense	**3,254**	1,492
Total income tax expense	**3,518**	1,492

Income tax expense as reported differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income taxes. The sources and tax effects of the differences are as follows:

	Dec 31, 2017	Dec 31, 2016
	$	$
Income before income taxes from continuing operations	**14,265**	5,711
Tax provision at the statutory income tax rate of 26.5%	**3,780**	1,513
Permanent differences	**274**	166
Effect of currency translation adjustment	**(746)**	(107)
Change in deferred tax assets not recognized	**210**	(80)
Income tax expense	**3,518**	1,492

As at December 31, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize a deferred tax asset. This assessment requires the exercise of judgement, which includes a review of projected taxable income. In 2017, the Company did not recognize a deferred tax asset of $210 (2016 - recognized $80) arising from capital losses incurred during the current year.

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

	Dec 31, 2017	Dec 31, 2016
	$	$
Non-capital losses and SR&ED	**-**	3,468
Tax credits	**1,670**	2,269
Temporary differences	**1,940**	1,127
	3,610	6,864

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

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

	Dec 31, 2017	Dec 31, 2016
	$	$
As at January 1	**6,864**	8,356
Tax provision	**(3,044)**	(1,572)
Change in deferred tax asset	**(210)**	80
As at December 31	**3,610**	6,864

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

	Dec 31, 2017	Dec 31, 2016
	$	$
Capital losses	**393**	183
	393	183

The Company has $2,272 of investment tax credits on SR&ED expenditures that are available to be applied against Canadian federal and provincial taxes otherwise payable in future years and expire in varying amounts from 2024 to 2031.

17. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the year ended December 31, 2017 was 26,572,412 (2016 - 26,197,942).

Diluted earnings (loss) per share is calculated using the weighted average number of shares outstanding taking into consideration the weighted average impact of dilutive securities. The dilutive weighted average for the year ended December 31, 2017 was 26,766,098 (2016 - 27,061,443).

18. COMMITMENTS AND CONTINGENCIES

In 2015, the Company entered into an operating lease for its Canadian office facilities which ends on December 31, 2018.

In 2015, the Company also entered into a lease for office space in Charleston, South Carolina for its U.S. operations. The lease commenced on February 22, 2016 and ends on January 31, 2023. After the disposal of the U.S. operations, this leased space was accounted for as an onerous lease, which included $1,461 to be received under a sublease arrangement.

The total minimum annual payments under the leases are as follows:

	$
2018	502
2019	338
2020	348
2021	358
2022	369
Thereafter	31

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

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

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

In 2012, the Company entered into an agreement to acquire the exclusive license and distribution rights in Canada to market the Beteflam Patch (previously called the Betesil Patch) from Institut Biochemique SA ("IBSA"). If certain milestones within that agreement are achieved in a particular year, the Company will owe a milestone payment of up to CDN $750 payable in the following calendar year. This milestone was not achieved in 2017.

In the normal course of business, the Company may be the subject of litigation or other potential claims. While management assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against litigation.

Licensing Agreements with Galephar

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

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

In 2016, Galephar entered into a contract with another party (the “Assignee”) to assign certain rights relating to CIP-ISOTRETINOIN under the Agreement. The Company is a party to this contract, agreeing to remit revenue on the same terms as the Agreement, from licensing and distribution within the U.S. for CIP-ISOTRETOIN directly to the Assignee.

On May 11, 2017, the founder, vice president and a shareholder of Galephar was elected to the Company’s Board of Directors as a non-independent member. As a result, the Company’s relationship with Galephar is considered a related party.

During the year ended December 31, 2017, the Company paid royalties of $4,913 (2016 - $13,883). As at December 31, 2017, the amount in accounts payable and accrued liabilities owed to Galephar were $3,591 (2016 - $5,972). Amounts payable to Galephar are remitted quarterly, after the Company collects from its licensing partners. Accordingly, the Company’s accounts receivable has a corresponding balance representing amounts owed by its licensing partners.

19. SEGMENTED INFORMATION

The Company's operations are categorized into one industry segment, being specialty pharmaceuticals. Prior to the disposal of the U.S. business, the Company managed its operations geographically in Canada and the United States, representing two segments. Following the disposal of the U.S. operations, the Company now has one reportable segment.

The Company generated approximately 14% of its net revenue within Canada, with the remainder attributable to the U.S. There are no significant assets located outside of Canada.

20. SUBSEQUENT EVENT

On February 27, 2018, the Company entered into a License, Development and Commercialization agreement with Synergy Pharmaceuticals Inc., granting the Company exclusive Canadian rights to develop, market, distribute and sell TRULANCE® (plecanatide). TRULANCE is approved for sale in the U.S. and the Company plans on filing a New Drug Submission with Health Canada in 2018. Under the terms of the licensing agreement, the Company will pay an upfront payment of $5,000, payable within 30 days of the date of the licensing agreement and an additional milestone payment, as well as royalties from product sales in Canada.