Aequus Pharmaceuticals Inc.

Financial Statements

For the periods ended December 31, 2014 and 2013

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Independent Auditor's Report

To the Shareholders of
Aequus Pharmaceuticals Inc.

We have audited the accompanying financial statements of Aequus Pharmaceuticals Inc., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013, and the statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Aequus Pharmaceuticals Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards.

"Crowe MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
April 30, 2015

Aequus Pharmaceuticals Inc.
Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2014 $	December 31, 2013 $
ASSETS			
Current			
Cash and cash equivalents		3,576,071	311,732
Amounts receivable		75,340	8,596
Prepaid expenses and other		9,250	10,261
		3,660,661	**330,589**
Property and equipment	5	5,243	6,742
Total assets		**3,665,904**	**337,331**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7	744,507	56,736
Total liabilities		**744,507**	**56,736**
Shareholders' equity			
Share capital			
Issued and outstanding:			
Common shares	6 [a]	2,029,127	1,195,281
Special warrants	6 [b]	3,599,524	—
Contributed surplus		1,333,221	714,590
Deficit		(4,040,475)	(1,629,276)
Total shareholders' equity		**2,921,397**	**280,595**
Total liabilities and shareholders' equity		**3,665,904**	**337,331**

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

Commitments and Contingencies [Note 8]
Subsequent Events [Note 13]

These financial statements were approved for issue by the Board of Directors on April 30, 2015 and signed on its behalf by:

/s/ Douglas G. Janzen — Director

/s/ Fotios Plakogiannis — Director

Aequus Pharmaceuticals Inc.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Note	Year Ended December 31, 2014 $	Period from January 3 to December 31, 2013 $
Expenses			
Research and development			
Patent and intellectual property protection		30,303	115,800
Professional and consulting fees	7	221,476	76,613
Licensing fees	7	—	310,790
Share-based payments	6[d] and7	113,682	463,884
Subcontract costs		649,334	31,079
Travel and accommodation		26,629	19,673
		1,041,424	1,017,839
General administration			
Advertising and promotion		37,162	23,302
Consulting and management fees	7	298,657	153,000
Depreciation	5	1,499	749
Legal and professional fees		327,244	97,628
Listing expenses		240,483	—
Market studies and survey		17,421	—
Office and miscellaneous		17,422	9,896
Regulatory fees		21,840	—
Rent and telephone		77,522	62,718
Share-based payments	6[d] and 7	381,986	250,706
Travel and accommodation		14,660	39,603
		1,435,896	637,602
Loss before other income		**(2,477,320)**	**(1,655,441)**
Other income			
Research grant		45,000	—
Foreign exchange gain and other		21,121	26,165
		66,121	**26,165**
Net loss and comprehensive loss		**(2,411,199)**	**(1,629,276)**
Basic and diluted loss per common share		**(0.10)**	**(0.08)**
Weighted average number of common shares outstanding		**25,012,844**	**21,335,593**

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

Aequus Pharmaceuticals Inc.

Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Common Shares		Special Warrants		Contributed Surplus	Deficit	Total
	Number	**$**	**Number**	**$**	**$**	**$**	**$**
Balance, January 3, 2013 (date of inception)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Issued as founder shares	15,000,000	6,000			594,000		600,000
Issued for cash pursuant to private placements	9,367,606	1,189,281	—	—	—	—	1,189,281
Share-based payments	—	—	—	—	120,590	—	120,590
Net loss for the period	—	—	—	—	—	(1,629,276)	(1,629,276)
Balance, December 31, 2013	**24,367,606**	**1,195,281**	**—**	**—**	**714,590**	**(1,629,276)**	**280,595**
Issued for cash pursuant to private placements	1,020,780	511,018	8,044,301	3,599,524	122,963	—	4,233,505
Issued for cash pursuant to exercise of warrants	586,961	322,828	—	—	—	—	322,828
Share-based payments	—	—	—	—	495,668	—	495,668
Net loss for the year	—	—	—	—	—	(2,411,199)	(2,411,199)
Balance, December 31, 2014	**25,975,347**	**2,029,127**	**8,044,301**	**3,599,524**	**1,333,221**	**(4,040,475)**	**2,921,397**

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

Aequus Pharmaceuticals Inc.
Statements of Cash Flows
(Expressed in Canadian dollars)

	Note	Year Ended December 31, 2014 $	Period from January 3 to December 31, 2013 $
OPERATING ACTIVITIES			
Net loss for the period		(2,411,199)	(1,629,276)
Add items not affecting cash:			
Depreciation of property and equipment	5	1,499	749
Share-based payments	6[d]	495,668	714,590
		(1,914,032)	(913,937)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(66,744)	(8,596)
Prepaid expenses and other		1,011	(10,261)
Accounts payable and accrued liabilities		614,888	56,736
Cash used in operating activities		**(1,364,877)**	**(876,058)**
INVESTING ACTIVITY			
Purchase of property and equipment		—	(7,491)
Cash used in investing activity		**—**	**(7,491)**
FINANCING ACTIVITIES			
Issuance of common shares, net of issuance costs	6[a]	833,846	1,195,281
Issuance of special warrants, net of issuance costs	6[b]	3,795,370	—
Cash provided by financing activities		**4,629,216**	**1,195,281**
Increase in cash and cash equivalents		**3,264,339**	**311,732**
Cash and cash equivalents, beginning of the period		311,732	—
Cash and cash equivalents, end of the period		**3,576,071**	**311,732**
Cash and cash equivalent consists of:			
Cash		2,063,092	300,108
Demand deposits		1,512,979	11,624
		3,576,071	311,732
Other supplemental information			
Issuance costs included in accounts payable and accrued liabilities		72,883	—
Special warrants issued to agents as financing compensation	6[b]	122,963	—
		195,846	—

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013. The Company is a speciality pharmaceutical company focused on enhancing delivery methods for approved drugs and consumer products that are limited by non-compliance, high frequency dosing, first-pass metabolism side effects, painful injections, or where the commercial presentation can be improved by making a long acting alternative available.

The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

These financial statements have been prepared under the assumption that the Company will continue as a going concern. The Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2014, the Company has accumulated a deficit of $4,040,475 (December 31, 2013 - $1,629,276). The Company's ability to continue as a going concern depends on its ability to obtain additional financing and, in the long-term, successfully develop its products for partnering revenue or commercialization profits. The Company has funded its operations primarily by common shares and warrants issuances. While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future. The Company believes its current working capital as of December 31, 2014 is adequate to finance its operation in the next twelve months.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") effective for the year ended December 31, 2014.

These financial statements were approved by the Company's Board of Directors on April 30, 2015.

[b] Basis of measurement

These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

[c] Functional and foreign currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

ii. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.

iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i. The Company uses the Black-Scholes option pricing model method to account for share-based payments and warrants. This pricing model requires management to make assumptions and estimates including future volatility of share price, expected yield and expected risk-free interest rate. Given their inherently uncertain nature, any changes in these assumptions and estimates will affect the fair value of share-based payments and warrants.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty (continued)

ii. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

iii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below which have been applied to all the years presented, unless otherwise stated.

[a] Financial instruments

Financial assets and liabilities are initially recognized at fair value when the Company becomes party to the contracts that give rise to them. Subsequent measurement depends on whether the financial instrument is classified as fair value through profit and loss ("FVTPL"), available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial instruments classified as (i) FVTPL is measured at fair value with unrealized gains and losses recognized in net income or loss; (ii) available-for-sale is measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss; and (iii) held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Transaction costs in respect of FVTPL financial instruments are recognized in net income or loss at the transaction date whereas transaction costs in respect of other financial instruments are included in the initial fair value measurement of the financial instruments.

The Company has designated its cash and cash equivalents as FVTPL, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

[b] Cash and cash equivalents

Cash and cash equivalents consists of cash, term deposits and guaranteed investment certificates that are readily convertible to known amounts of cash within 90 days of purchase.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[c] Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable and includes expenditures that are directly attributable to the acquisition of the asset. Where an item of property and equipment is comprised of major components with different useful lives, each component is accounted and depreciated for as a separate item.

Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. One-half of the depreciation is recognized in the year of acquisition. Office and equipment is amortized over 5 years.

[d] Impairment of assets

Financial assets and non-financial assets of the Company are reviewed at the end of each reporting period or when facts and circumstances suggest their carrying values have been impaired. The Company considers assets to be impaired if the carrying values exceed the recoverable amount, being the higher of the value in use and the fair value less costs to sell.

Financial assets include cash and cash equivalents carried at fair value and amounts receivable measured at amortized cost. Amounts receivable consist of primarily of goods and services taxes due from the Government of Canada. The Company considers the recoverable amounts of its financial assets to approximate their carrying values.

Non-financial assets consist of property and equipment. In assessing value in use for a non-financial asset, the estimated future cash flows associated with the non-financial asset are discounted to their present value using a risk adjusted pre-tax discount rate. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment immediately recognized in net income or loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate, subject to the amount not exceeding the carrying amount that would have been determined had impairment loss not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in net income or loss.

[e] Research and development costs

Research costs, including costs for new patents and patent applications, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, intent and ability to develop and use the technology, are met for deferral and amortization. No development cost has been deferred to date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[f] Share-based payments

The Company grants stock options to directors, officers and consultants pursuant to a stock option plan described in *note 6[d]*. The Company uses the fair value method to account for all share-based awards granted, modified or settled, and the Black-Scholes option pricing model to determine the fair value of share options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in the contributed surplus will be transferred to share capital on the exercise of share options is credited to share capital. Share options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively.

In connection with the issuance of founder shares at inception, the Company recognized share-based payments of $594,000 related to the fair value of the shares issued in the preceding fiscal period ended December 31, 2013. The fair value of share-based payment was measured as the difference between the share price issued to arms-length person and the share price issued to the founders of the Company.

[g] Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between carrying values of assets and liabilities and their respective income tax bases, unused tax losses and other income tax deductions. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The Company reassesses the extent to which tax benefits may be realized at the end of each reporting period.

Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the related tax assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net income or loss except when they arise as a result of items recognized in other comprehensive income or loss, or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or loss, or in equity, respectively.

[h] Investment tax credit

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in profit or loss depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are recorded upon the Company receiving cash from the Canada Revenue Agency.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[i] Government assistances

Government assistances consist of grants received under the Industrial Research Assistance Program ("IRAP") and refundable scientific research and experimental development tax credits ("SR&ED"). Government assistances are recorded in profit upon cash receipt and when reasonable assurance exists that the Company has complied with the terms and conditions of the IRAP and SR&ED programs.

[j] Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed in Note 6 are anti-dilutive for all periods presented.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

The following is an overview of new accounting standards that the Company adopted effective January 1, 2014:

- **IAS 32** - *Financial Instruments, Presentation.* IAS 32 clarifies the criteria that should be considered in determining whether an entity has a legally enforceable right of set off its financial instruments.
- **IAS 36** - *Impairment of Assets.* The amendment for IAS 36 reduces the circumstances in which the recoverable amount of cash-generating units is required to be disclosed and clarifies the disclosures when an impairment loss has been recognized or reversed in the period.
- **IFRIC 21 –** *Levies* – International Financial Reporting Standards Interpretations Committee ("IFRIC") 21 provides guidance on when to recognize a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The adoption of the above standards did not have a material impact on the financial statements.

New Standards Not Yet Effective

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its financial statements.

- **IFRS 2** – *Share-based Payment (Amendment)* - This new standard provides revised definition for "vesting conditions" and "market condition" related to share based payment. The standard is effective for annual periods beginning on or after July 1, 2014.

(Expressed in Canadian dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

New Standards Not Yet Effective (continued)

- **IFRS 9** - *Financial Instruments* - This standard provides added guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018.

- **IFRS 15 -** *Revenue from Contacts with Customers* – The standard covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning or after January 1, 2017.

- **IAS 24 –** *Related Party Disclosures (Amendment)* - This new standard provides new definition for "related party" which encompasses key management personnel. The standard is effective for annual periods beginning on or after July 1, 2014.

- **IAS 38 –** *Intangible Assets (Amendment)* – This new standard provides guidance on revaluation methods for intangible assets. The standard is effective for annual periods beginning on or after January 1, 2016.

The Company is currently assessing the impact of adoption of these new standards.

5. PROPERTY AND EQUIPMENT

	Total $
Office Furniture and Equipment	
Cost:	
As of January 3, 2013	—
Additions	7,491
Balance, December 31, 2013 and 2014	**7,491**
Accumulated depreciation:	
As of January 3, 2013	—
Depreciation	749
Balance, December 31, 2013	749
Depreciation	1,499
Balance, December 31, 2014	**2,248**
Net book value:	
As of December 31, 2013	**6,742**
As of December 31, 2014	**5,243**

(Expressed in Canadian dollars)

6. SHARE CAPITAL

[a] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares without par value		
Unlimited number of Class A preferred shares without par value		
Issued and Outstanding		
Issued for cash to the Company's co-founders *[note 6 [a] (i)]*	15,000,000	6,000
Issued for cash pursuant to a private placement *[note 6 [a] (ii)]*	6,686,750	267,470
Issued for cash pursuant to a private placement *[note 6 [a] (iv)]*	1,387,286	485,550
Issued for cash pursuant to a private placement, net of issuance costs *[note 6 [a](v)]*	1,293,570	436,261
Balance, December 31, 2013	**24,367,606**	**1,195,281**
Issued for cash pursuant to exercise of warrants *[note 6 [a] (vi)]*	586,961	322,828
Issued for cash pursuant to a private placement, net of issuance costs *[note 6 [a] (vii)]*	415,780	192,270
Issued for cash pursuant to a private placement, net of issuance costs *[note 6 [a] (viii)]*	605,000	318,748
Balance, December 31, 2014	**25,975,347**	**2,029,127**

(i) On January 3, 2013 following its inception, the Company issued 15,000,000 common shares at a deemed value of $0.0004 per share to its co-founders. In connection with the issuance of founder shares ("Founder Shares"), the Company recognized share-based payments of $594,000 related to the fair value of the shares issued. The fair value of share-based payment is measured as the difference between the share price issued to an arms-length person and the share price issued to the founders of the Company.

(ii) From February 25, 2013 to April 30, 2013, the Company issued 6,686,750 common shares at a price of $0.04 per common share for total gross proceeds of $267,470.

(iii) On June 3, 2013, the Company completed a stock split on a one for two-and-half basis. All share capital, warrants, options and per share amounts in these financial statements have been retroactively restated to reflect the stock split.

(iv) On June 20, 2013, the Company completed a private placement of 1,387,286 units at a price of $0.35 per unit for total gross proceeds of $485,550. Each unit consists of one common share and one common share purchase warrant of the Company. Each common share purchase warrant is exercisable into one common share of the Company at $0.65 per common share until June 20, 2015. The Company has the right to accelerate the expiry date of the common share purchase warrants if it enters into a development and manufacturing agreement prior to June 20, 2015.

6. SHARE CAPITAL (CONTINUED)

(v) On September 10, 2013, the Company completed a private placement of 1,293,570 units at a price of $0.35 per unit for total gross proceeds of $452,750. Each unit consists of one common share and one common share purchase warrant of the Company. Each common share purchase warrant is exercisable into one common share of the Company at $0.65 per share until July 12, 2015, except for 347,857 common share purchase warrants until June 20, 2015. The Company incurred $16,489 in share issuance costs. The Company has the right to accelerate the expiry date of the common share purchase warrants if it enters into a development and manufacturing agreement prior to June 20, 2015, or July 12, 2015, as applicable.

(vi) On March 6, 2014, the Company provided notices to its common share warrant holders that it would enter into a development and manufacturing agreement. As such, the expiry date of the common share purchase warrants was accelerated to July 4, 2014 pursuant to the terms of the private placements closed in June and September 2013 [Note 6 [a] (iv) and (v)]. Concurrently, warrant holders were given offers until April 11, 2014 for early exercises. The proposed terms were a lower exercise price of $0.55 instead of $0.65 per common share, and the right to transfer the warrant in exchange for an earlier expiry date of May 5, 2014 (the "Offer").

Warrant holders of 817,857 warrants accepted the Offers resulting in 586,961 warrants being exercised into common shares and 230,896 warrants expiring on May 5, 2014. The remaining 1,862,999 common share purchase warrants expired unexercised on July 4, 2014.

(vii) On July 11, 2014, the Company closed a private placement of common shares. The Company issued 415,780 common shares at a price of $0.55 per common share for total gross proceeds of $228,680. The Company incurred $35,410 in other share issuance costs. The Company subsequently entered into amending agreements with the investors of this financing and issued 207,890 common share purchase warrants to the investors. Each such warrant is exercisable to acquire one common share in the capital of the Company at an exercise price of $0.75 per warrant for a period of 24 months following the date of issuance of such warrant, subject to adjustment in certain circumstances and the Company's right to accelerate the exercise period of such warrants upon meeting certain conditions.

(viii) On December 17, 2014, the Company issued an aggregate of 605,000 units at a price of $0.55 per unit for aggregate gross proceeds of $332,750. Each unit consists of one common share and one half of one common share purchase warrant of the Company. Each whole common share purchase warrant warrant is exercisable into one common share of the Company at $0.75 per such warrant until December 17, 2016. The Company has a right to accelerate the exercise period of the such warrants upon meeting certain conditions.

This is a follow-on financing to the Offering defined herein. As such, the Company has allocated a pro-rata share of the professional fees and other related financing costs in connection to the Offering to this financing. The Company incurred $14,002 in issuance costs which are comprised of $1,485 cash commissions and $12,517 of professional fees and other related financing costs.

6. SHARE CAPITAL (CONTINUED)

[b] Special warrants

On November 20, 2014, the Company closed a brokered private placement offering and a non-brokered private placement offering of special warrants (collectively the "Offering"). Cormark Securities Inc. and Clarus Securities Inc. acted as co-lead agents in the brokered private placement offering for a syndicate of agents that also included Wolverton Securities Ltd. and PI Financial Corp. (collectively the "Agents").

In connection with the Offering, the Company issued a total of 7,618,780 special warrants at a price of $0.55 per special warrant for total gross proceeds of $4,190,329. Each special warrant entitles the holder to acquire, upon exercise or deemed exercise and for no additional consideration, one unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire an additional Common Share at a purchase price of $0.75 until November 20, 2016. The Company has a right to accelerate the exercise period of the Warrants upon meeting certain conditions.

The Company agreed to use its best efforts to obtain, within 180 days from closing of the Offering, a receipt for a final long form prospectus qualifying the distribution of common shares and common share purchase warrants upon exercise or deemed exercise of the special warrants and to list its common shares on a stock exchange. Subsequent to the year-end, the Company obtained a receipt for a final long form prospectus on February 19, 2015 and listed its common shares on the TSX Venture Exchange on March 17, 2015.

In connection to the Offering, the Company had incurred $248,270 cash commissions and issued 425,521 agents' special warrants valued at $122,963. Each agents' special warrant will be exercisable or deemed exercisable to acquire, for no additional consideration, an agents' warrant. Each such agents' warrant entitles the holder to acquire one unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant at an exercise price of $0.55 per agents' warrant. Each such warrant entitles the holder to acquire an additional common share at a purchase price of $0.75 per warrant for a period of 24 months following the date of such agents' warrant. The Company has a right to accelerate the exercise period of such warrants upon meeting certain conditions. The Company has allocated $219,572 of professional fees and other related financing costs to this Offering and recorded a total issuance cost of $590,805 including cash commissions.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price
Balance, January 3, 2013	**-**	**-**
Issued	2,680,856	$0.65
Balance, December 31, 2013	**2,680,856**	**0.65**
Exercised	(586,961)	0.65
Expired	(2,093,895)	0.65
Issued	510,390	0.75
Balance, December 31, 2014	**510,390**	**$0.75**

Date of Expiry	Number	Exercise Price
December 17, 2016	487,663	0.75
December 23, 2016	22,727	0.75
	510,390	**$0.75**

[d] Stock options

On December 10, 2014, the Company adopted a stock option plan (the “Stock Option Plan”) providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The maximum number of common shares that are issuable under the Stock Option Plan is an aggregate of 10% of the issued and outstanding common shares, calculated as at the award date of the options. The maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the fiscal periods ended December 31, 2014 and 2013, the Company recorded share-based payments of $495,668 and $714,590, respectively. Of the share-based payments recorded in the preceding year, $594,000 were in connection with the Founder Shares [Note 6 [a](i)] and the remaining $120,590 was related to stock options granted under the Stock Option Plan. The fair values of share options granted and vested during the fiscal period ended December 31, 2014 and 2013 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2014	2013
Risk-free interest rate	1.72%	1.88%
Estimated annualized volatility based on comparable companies	100%	100%
Expected life	8.00 years	7.67 years
Expected dividend yield	0%	0%
Exercise price	$0.55	$0.27
Fair value	$0.47	$0.23
Share price	$0.55	$0.27

(Expressed in Canadian dollars)

6. SHARE CAPITAL (CONTINUED)

[d] Stock options (continued)

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, January 3, 2013		
Granted	1,369,735	0.27
Balance, December 31, 2013	**1,369,735**	**0.27**
Amendment [(i)]	674,602	0.35
Granted	553,000	0.55
Balance, December 31, 2014	**2,597,337**	**0.35**

(i) In November 2014, the Company amended certain terms of the stock options previously granted in May 2013. The amendments include changing the right to acquire additional common shares, from 449,735 to 1,124,337 common shares, and increasing the exercisable price from $0.10 to $0.25 per common shares. All other terms remained unchanged.

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
May 31, 2020	$0.25	1,124,337	845,253
December 12, 2021	$0.35	920,000	522,500
December 1, 2022	$0.55	203,000	89,000
December 18, 2022	$0.55	350,000	175,000
Balance, December 31, 2014	**$0.35**	**2,597,337**	**1,631,753**

As of December 31, 2014, the weighted average remaining life for outstanding options was 6.5 years (2013 – 7.4 years).

7. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

Related parties include members of the Board of Directors and officers of the Company, and enterprises controlled by these individuals. The following fees and expenses were incurred in the normal course of business:

	Year Ended December 31, 2014 $	Period Ended December 31, 2013 $
Sub-contract research and licensing fees	348,561	341,869
Management fees	238,000	88,500
Consulting fees	92,500	64,000
	679,061	**494,369**

7. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

(i) On July 30, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), entered into a licensing agreement. TRPL is controlled by Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis, the current directors of the Company. Pursuant to the licensing agreement, and subsequent amendment dated June 1, 2014, the Company obtains an exclusive worldwide right to a novel transdermal formulation of aripiprazole for all uses. The Company paid TRPL $310,790 of licensing fees and other associated costs in the fiscal period ended December 31, 2013. The Company has fulfilled all of its obligations under the licensing agreement.

On August 1, 2013, the Company and TRPL further entered into a research service contract to cover formulation work in connection with the aripiprazole formulation and other pipeline programs as directed by the Company. Pursuant to the terms of this research service contract expiring on June 30, 2015, the Company compensates TRPL for research work requested and pre-approved by the Company in exchange for the right to acquire an exclusive worldwide right to any intellectual property arising from or related to the research work. There is no fixed financial commitment under this research service contract. The Company incurred subcontract research fees of $348,561 and $31,079 during fiscal periods ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Company included in its accounts payable and accrued liabilities $57,363 (2013 – Nil) due to TRPL.

(ii) Effective September 1, 2014, the Company entered into a management services agreement with Northview Ventures and Associates General Partners ("Northview"), Doug Janzen, and Anne Stevens (the "Services Agreement"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Miss. Stevens is Secretary and Vice President, Corporate Development. Pursuant to the Service Agreement, Mr. Janzen, Miss. Stevens and other employees of Northview, direct and manage the affairs and the day-to-day operations of the Company at a monthly rate of $27,000. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones.

As of December 31, 2014, the Company included in its accounts payable and accrued liabilities $28,350 (2013 – Nil) due to Northview.

(iii) Prior to September 1, 2014, the Company had a consultancy arrangement with Mr. Janzen for his management services at a monthly rate of $10,000. This arrangement was replaced by the Service Agreement on September 1, 2014.

(iv) The Company entered into a financial consulting service agreement with two former directors, Peter Wilson and K. Charlie Perperidis, respectively at a monthly rate of $4,000 each. Mr. Wilson and Mr. Perperidis ceased to be directors of the Company in October 2014.

(Expressed in Canadian dollars)

7. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

(v) On December 1, 2014, the Company entered into a consulting services agreement with KeenVision Consulting Inc. ("KeenVision") and Christina Yip (the "Consulting Agreement"). Ms. Yip is the Acting Chief Financial Officer of the Company. Pursuant to the Consulting Agreement with a term expiring on November 30, 2016, Ms. Yip and other personnel of KeenVision provide financial services normally assumed by the Chief Financial Officer and Controller of a publicly listed company. KeenVision is compensated at a monthly rate of $8,000 and is entitled to incentive bonuses upon the satisfaction of specified milestones.

As of December 31, 2014, the Company has included in its accounts payable and accrued liabilities $8,400 (2013 – Nil) due to KeenVision.

(vi) As of December 31, 2014, the Company has included in its accounts payable and accrued liabilities $33,778 (2013 – Nil) due to officers of the Company.

[b] Key management compensation

Key management includes members of the Board of Directors and executive officers of the Company. Compensation awarded to key management is listed below:

	Year Ended December 31, 2014 $	**Period Ended December 31, 2013 $**
Management fees	238,000	88,500
Consulting fees	92,500	64,000
Share-based payments	425,434	36,934
	755,934	**189,434**

8. COMMITMENTS AND CONTINGENCIES

[a] Operating Lease

On January 1, 2014, the Company entered into an office sharing agreement for its Vancouver head office at Dunsmuir Street. This office sharing agreement has a term until March 31, 2018. Pursuant to this agreement, the Company is obligated to pay a minimum monthly rent of $9,048 and has a right to terminate the office arrangement with a 90-day written notice after January 1, 2015.

[b] Development Agreement

On May 23, 2014, the Company entered into a development agreement with Corium International Inc. ("Corium") which requires the Company to fund research and development work. Pursuant to this development agreement, the Company has a minimum financial commitment of $289,815 (US$261,000) and an option to contract additional research studies at $464,040 (US$400,000). During the fiscal period ended December 31, 2014, the Company has incurred and paid $289,815 (US$261,000) to Corium.

[c] Contingencies

The Company has entered into agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay.

As of December 31, 2014, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the financial statements with respect to these indemnification obligations.

9. OPERATING SEGMENT

The Company has a single operating segment, the research and development of enhancing delivery method for approved drugs. Substantially all of the Company's operations, assets, and employees are in Canada.

10. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the development of its product candidates for ultimate sale or out-licensing. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

The Company defines its capital as share capital, special warrants, and contributed surplus. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2014.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value due to their short-term nature.

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 – inputs for the asset or liability that are not based upon observable market data.

The fair value of cash and cash equivalents is based on Level 1 inputs of the fair value hierarchy.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash on deposits and amounts receivable. The Company has adopted practices to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits with banks and government guaranteed securities with maturities of one year or less. The Company had no short-term investments at December 31, 2014. Amounts receivable consist of primarily goods and services tax due from the Government of Canada.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2014, the Company had working capital of $2,916,154 (December 31, 2013 - $273,853).

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the period ended December 31, 2014, fluctuations in the market interest rates had no significant impact on its interest income.

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in US dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows.

As at December 31, 2014 and 2013, the Company had the following assets and liabilities denominated in US dollars:

	December 31, 2014 US$	**December 31, 2013 US$**
Cash	195,585	165,920
Accounts payable and accrued liabilities	(202,342)	(8,492)
Total	**(6,757)**	**157,428**

Based on the above net exposure as at December 31, 2014, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of $339 (2013 - $8,372) in the Company's net loss and comprehensive loss.

(Expressed in Canadian dollars)

12. INCOME TAXES

At December 31, 2014, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, that expire as follows:

Expiry Date	Non-Capital Losses $
December 31, 2033	790,774
December 31, 2034	1,763,458
	2,554,232

The Company also has a tax pool of approximately $371,000 related to scientific research and experimental development expenditures in Canada available to carry forward indefinitely to reduce taxable income of future years.

Significant components of the Company's deferred income tax assets and liabilities are shown below:

	December 31, 2014 $	December 31, 2013 $
Deferred income tax assets:		
Property and equipment	584	195
Share issuance costs	110,504	3,430
Scientific research and experimental development expenditures	96,584	31,374
Non-capital loss carryforwards	664,101	205,601
Total deferred income tax assets	871,773	240,600
Deferred income tax assets not recognized	(871,773)	(240,600)
Net deferred income tax assets	-	-

The potential income tax benefits relating to the net deferred income tax assets have not been recognized in the financial statements as their realization did not meet the requirements of "probable" under the liability method of tax allocation. Accordingly, no net deferred income tax assets have been recognized as at December 31, 2014 and 2013. The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 26% statutory tax rate is:

	Year Ended December 31, 2014 $	Period Ended December 31, 2013 $
Expected income tax recovery at statutory rates	(626,912)	(419,539)
Items not deductible for tax purposes	130,654	185,498
Effect of change in tax rates	-	(2,272)
Benefits not recognized	496,258	236,313
Income tax expense	-	-

13. SUBSEQUENT EVENTS

a) On February 19, 2015, the Company successfully received a receipt (the “Receipt”) for a final prospectus filed with securities regulators in British Columbia, Alberta, Manitoba and Ontario (the “Jurisdictions”). The Receipt makes the Company a reporting issuer in the Jurisdictions with all of the reporting requirements associated with that status. As a result of the Receipt, all 7,618,780 special warrants and 425,521 agents’ special warrants [Note 6 [b]] were deemed exercised on February 25, 2015. These securities converted into 7,618,780 common shares, 3,809,388 Warrants exercisable at a price of $0.75 per Warrant until November 20, 2016 and 425,521 agents’ warrants exercisable at a price of $0.55 per agents’ warrant until February 25, 2017.

b) On March 16, 2015, the Company granted 750,000 incentive stock options to its directors and officers in accordance to the Stock Option Plan. These stock options are granted for an eight-year term and an exercise price of $0.55 per common share. Of these options, 432,500 will vest immediately and 317,500 will vest over a two-year period starting March 6, 2016.

c) On March 17, 2015, the Company’s common shares commenced trading on the TSX Venture Exchange under the trading symbol “AQS”.

d) On March 17, 2015, in connection with the Company's initial listing on the TSX Venture Exchange, the Company deposited 20,387,125 common shares and 1,794,337 stock options held by its founders, directors and officers in an escrow program. Of these securities, 10% were released on the day of listing and the remaining were to be released over a 36 month period at a rate of 15% every semi-annually

e) On April 9, 2015, the Company entered into a sublease agreement for its new Vancouver head office premise expiring on November 30, 2018 and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay minimum monthly lease payment of $8,893 starting June 1, 2015. The Company has exercised its right and provided written notice on February 10, 2015 to terminate the office sharing agreement for its office premises at Dunsmuir [Note 8[a]].

f) On April 28, 2015, the Company and Corium International, Inc. announced that they have entered into a multi-product collaboration agreement under which the parties may co-fund new transdermal products with an initial focus on neurological disorders. Under the terms of this agreement, for each product selected for development, the parties will assign an allocation of responsibilities, costs, rights and product revenues.