Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Unaudited – Expressed in Canadian dollars)
(Prepared by Management)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Aequus Pharmaceuticals Inc. (the "Company") have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the three months ended March 31, 2017 have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars.

Aequus Pharmaceuticals Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

	Note	March 31, 2017 $	December 31, 2016 $
ASSETS			
Current			
Cash and cash equivalents		4,059,367	473,242
Amounts receivable		220,911	190,114
Prepaid expenses and deposit		117,930	140,197
		4,398,208	**803,553**
Property and equipment	5	48,196	45,958
Intangible assets	6	1,030,105	1,072,502
Deferred share-based payments	7	64,074	88,082
		1,142,375	**1,206,542**
Total assets		**5,540,583**	**2,010,095**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	657,143	744,411
Total liabilities		**657,143**	**744,411**
SHAREHOLDERS' EQUITY			
Share capital	8	17,168,189	12,606,882
Contributed surplus		2,592,619	2,522,737
Deficit		(14,877,368)	(13,863,935)
Total shareholders' equity		**4,883,440**	**1,265,864**
Total liabilities and shareholders' equity		**5,540,583**	**2,010,095**

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

Nature of operations and Going Concern [Note 1]
Commitments and Contingencies [Note 10]
Subsequent Events [Note 16]

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on May 30, 2017 and signed on its behalf by:

/s/ Douglas G. Janzen	/s/ Chris Clark
Director	Director

Aequus Pharmaceuticals Inc.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Revenue		293,002	116,083
Expenses			
Research and development	12[a]	398,273	169,093
Sales and marketing	12[b]	349,145	443,863
General administration	12[c]	559,639	670,440
		1,307,057	1,283,396
Loss before other income		**(1,014,055)**	**(1,167,313)**
Other income (loss)			
Interest income		3	944
Foreign exchange loss		619	1,704
		622	**2,648**
Net loss and comprehensive loss		**(1,013,433)**	**(1,164,665)**
Basic and diluted loss per common share		**(0.02)**	**(0.03)**
Weighted average number of common shares outstanding		**57,639,785**	**44,211,201**

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

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian dollars)

	Common Shares		Subscriptions Received	Contributed Surplus	Deficit	Total
	Number	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2015	**39,554,127**	**7,582,240**	**719,575**	**2,034,726**	**(9,051,880)**	**1,284,661**
Issued for cash pursuant to a non-brokered private placement and a non-brokered public offering *[note 8[b][i]]*	5,297,422	2,515,177	(719,575)	-	-	**1,795,602**
Issued for cash pursuant to a public financing *[note 8[b][ii]]*	9,146,400	2,458,186	-	-	-	**2,458,186**
Shares issued for services *[note 8[b][iii]]*	153,072	51,279	-	-	-	**51,279**
Share-based payments *[note 8 [e]]*	-	-	-	488,011	-	**488,011**
Net loss for the year	-	-	-	-	(4,812,055)	**(4,812,055)**
Balance, December 31, 2016	**54,151,021**	**12,606,882**	**-**	**2,522,737**	**(13,863,935)**	**1,265,684**
Issued for cash pursuant to a bought deal financing *[note 8[b][iv]]*	17,250,000	5,175,000	-	-	-	**5,175,000**
Share issue costs	-	613,693	-	-	-	**613,693**
Shares cancelled pursuant to escrow agreement *[note 8[b][v]]*	(336,000)	-	-	-	-	**-**
Share-based payments *[note 8 [e]]*	-	-	-	69,882	-	**69,882**
Net loss for the period	-	-	-	-	(1,013,433)	**(1,013,433)**
Balance, March 31, 2017	**71,065,021**	**17,168,189**	**-**	**2,592,619**	**(14,877,368)**	**4,883,440**

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

Aequus Pharmaceuticals Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
OPERATING ACTIVITIES			
Net loss for the period		(1,013,433)	(1,164,665)
Add items not affecting cash:			
Depreciation of property and equipment	5	4,410	796
Depreciation of intangible assets	6	42,397	42,398
Share-based payments	7 & 8[e]	93,890	151,898
		(872,736)	(969,573)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(30,797)	(105,342)
Prepaid expenses and deposit		22,267	(115,082)
Accounts payable and accrued liabilities		(182,532)	(522,800)
Cash used in operating activities		**(1,063,798)**	**(1,712,797)**
INVESTING ACTIVITIES			
Purchase of property and equipment	5	(48,883)	—
Purchase of intangible assets	6	—	(478,940)
Cash used in investing activities		**(48,883)**	**(478,940)**
FINANCING ACTIVITIES			
Issuance of common shares, net of issuance costs	8[b]	4,698,806	1,795,602
Cash provided by financing activities		**4,698,806**	**1,795,602**
Increase (Decrease) in cash and cash equivalents		**3,586,125**	**(396,135)**
Cash and cash equivalents, beginning of the period		473,242	1,163,812
Cash and cash equivalents, end of the period		**4,059,367**	**767,677**

Supplemental disclosure with respect to cash flow (Note 15)
The accompanying notes are an integral part of these condensed consolidated interim 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 specialty pharmaceutical company focused on developing and commercializing high quality and differentiated products. 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 condensed consolidated interim financial statements (the "**Financial Statements**") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2017, the Company has accumulated a deficit of $14,877,368 (December 31, 2016 - $13,863,935) and working capital of $3,741,065 (December 31, 2016 - $59,142).

The Company's ability to meet its long term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from the acquired business of TeOra Health Ltd. ("**TeOra**"). On July 28, 2015, the Company completed its acquisition of TeOra, a privately held Canadian specialty pharmaceutical company (the "**TeOra Acquisition**") *[note 6[a]]*. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market a branded generic ophthalmology product within Canada. On September 30, 2015, the Company further expanded this exclusive promotional right to include a transplant product called Tacrolimus IR. The Company will receive revenues based on agreed upon percentages of net sales. The Company started generating service revenue from Tacrolimus IR in the first quarter of 2016 and from ^{PR} Vistitan™ sales in the second quarter of 2016. The Company's longer term business strategy for generating cash flow is to successfully develop its later stage product pipeline through marketing agreements or product commercialization profits and engaging in development and commercial partnerships for one or more of its development pipeline products which would generate licensing revenues for the Company from territories outside of Canada.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2016, which have been prepared with International Financial Reporting Standards ("**IFRS**"). These Financial Statements were approved by the Company's Board of Directors on May 30, 2017.

[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.

[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.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Critical Judgments (continued)

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.

iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

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. 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.

ii. 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.

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management' best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

iv. Revenues are recognized based on a calculation of estimated profits using actual third party sales figures. Changes in estimates of revenues are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2016.

These Financial Statements include the accounts of the Company's wholly-owned subsidiary: TeOra Health Ltd. incorporated under the Business Corporations Act (Ontario). All significant intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

The following is an overview of new accounting standards that the Company adopted effective January 1, 2017:

- **IAS 7** *Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)* - These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2017.

The adoption of the above standards did not have a material impact on the Financial Statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 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 Contracts with Customers* - This 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, 2018.

- **IFRS 2** *Classification and Measurement of Share-based Payment Transactions* – This standard was issued in June 2016. The amendments provide requirements on accounting for the effect of vesting and non-vesting conditions on the measurement of cash settled share-based payments, share-based transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transactions from cash-settled to equity-settled. This standard is effective for reporting periods beginning on or after January 1, 2018.

- **IFRS 16** *Leases* - This standard was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

(Unaudited - Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Office Furniture and Equipment $	Computer & Website Costs $	Leasehold Improvement $	Total $
Office Furniture and Equipment				
Cost:				
Balance, December 31, 2015	**5,514**	—	**4,211**	**9,725**
Addition	—	42,235	—	42,235
Balance, December 31, 2016	**5,514**	**42,235**	**4,211**	**51,960**
Addition	5,039	1,609	—	6,648
Balance, March 31, 2017	**10,553**	**43,844**	**4,211**	**58,608**
Accumulated depreciation:				
Balance, December 31, 2015	**2,208**	—	**982**	**3,190**
Depreciation	1,128	—	1,684	2,812
Balance, December 31, 2016	**3,336**	—	**2,666**	**6,002**
Depreciation	402	3,587	421	4,410
Balance, March 31, 2016	**3,738**	**3,587**	**3,087**	**10,412**
Net book value:				
As of December 31, 2016	**2,178**	**42,235**	**1,545**	**45,958**
As of March 31, 2017	**6,815**	**40,257**	**1,124**	**48,196**

(Unaudited - Expressed in Canadian dollars)

6. INTANGIBLE ASSETS

[a] On July 28, 2015, the Company acquired all issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market [PR] Vistitan™, an ophthalmology product within Canada. In exchange for these assets and services of TeOra shareholders *[Note 7]*, the Company issued 3,360,000 common shares of the Company valued at $1,002,120, repaid TeOra's liabilities of $154,817 in cash and incurred transaction costs of $82,448 for a total acquisition cost of $1,239,385. Of the 3,360,000 common shares issued, 420,000 common shares were released to TeOra shareholders upon closing, and the remaining 2,940,000 common shares were held in escrow for release over time for services performed and upon achievement of certain milestones *[Note 8[b]]*.

The Company accounted for this transaction as an acquisition of an asset and services, and allocated $847,945 and $391,440 of the acquisition costs to intangible assets and deferred share-based payments *[Note 7]*, respectively. The acquisition cost of intangible assets is amortized over a five-year period using a straight-line method with one half of the amortization recognized in the year of acquisition.

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "**Supernus Agreement**"). Pursuant to the terms of the Supernus Agreement, the Company paid an upfront fee of $478,940 (US$350,000) and is further obligated to pay additional licensing milestone fees of US$5.15 million, a 15% royalty fee on sales and a final sales milestone payment as described in *Note 10[c]*. Amortization of licensing fees will be recognized following the receipt of regulatory approval from Health Canada and upon commencement of commercial activities of the underlying products.

As of March 31, 2017, the net book value of intangible assets are as follows:

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2015	**847,945**	**—**	**847,945**
Initial advance for license	—	478,940	478,940
Balance, December 31, 2016 & March 31, 2017	**847,945**	**478,940**	**1,326,885**
Accumulated amortization:			
Balance, December 31, 2015	**84,794**	**—**	**84,794**
Amortization of intangible assets	169,589	—	169,589
Balance, December 31, 2016	**254,383**	—	**254,383**
Amortization of intangible assets	42,397	—	42,397
Balance, March 31, 2017	**296,780**	—	**296,780**
Net book value:			
As of December 31, 2016	**593,562**	**478,940**	**1,072,502**
As of March 31, 2017	**551,165**	**478,940**	**1,030,105**

(Unaudited - Expressed in Canadian dollars)

7. DEFERRED SHARE-BASED PAYMENTS

On July 28, 2015, the Company acquired all of the issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market [PR] Vistitan™, an ophthalmology product within Canada *[Note 6[a]]*. Share-based payment for services of TeOra shareholders was recognized up front as a deferred asset and is expensed using the graded-vesting approach. During the three months ended March 31, 2017, the Company recognized share-based payment expense of $24,008 (2016 – $64,548) related to the acquisition of TeOra. As of March 31, 2017, the net book value of the services acquired were as follows:

	Deferred share-based payments $
Cost:	
Balance, December 31, 2015 & 2016 and March 31, 2017	**391,440**
Accumulated amortization:	
Balance, December 31, 2015	**116,328**
Amortization of deferred share-based payments	187,030
Balance, December 31, 2016	**303,358**
Amortization of deferred share-based payments	24,008
Balance, December 31, 2016	**327,366**
Net book value:	
As of December 31, 2016	**88,082**
As of March 31, 2017	**64,074**

8. SHARE CAPITAL

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of March 31, 2017 and December 31, 2016, there were no preferred shares issued and outstanding.

(Unaudited - Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[b] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares without par value		
Issued and Outstanding		
Balance, December 31, 2015	**39,554,127**	**7,582,240**
Issued for cash pursuant to a non-brokered private placement and a non-brokered public offering *[note 8[b][i]]*	5,297,422	2,515,177
Issued for cash pursuant to a public financing *[note 8[b][ii]]*	9,146,400	2,458,186
Issue for services *[note 8[b][iii]]*	153,072	51,279
Balance, December 31, 2016	**54,151,021**	**12,606,882**
Issued for cash pursuant to bought-deal financing*[note 8[b][iv]]*	17,250,000	4,561,307
Cancelled pursuant to TeOra Escrow agreement *[note 8[b][v]]*	(336,000)	—
Balance, March 31, 2017	**71,065,021**	**17,168,189**

Held in Escrow Accounts	**Number of Shares**	**Percentage of Escrowed Shares**
(i) Pursuant to listing requirements of the TSX Venture Exchange		
Balance, December 31, 2015	**15,290,344**	**75.00%**
Release on March 17, 2016	(3,058,069)	(15.00%)
Release on September 17, 2016	(3,058,069)	(15.00%)
Balance, December 31, 2016	**9,174,206**	**45.00%**
Release on March 17, 2017	(3,058,069)	(15.00%)
Balance, March 31, 2017	**6,116,137**	**30.00%**
(ii) Pursuant to the terms of the TeOra Acquisition		
Balance, December 31, 2015	**2,940,000**	**87.50%**
Release on closing date anniversary of the TeOra acquisition	(420,000)	(12.50%)
Release on achievement of performance milestones	(1,344,000)	(40.00%)
Balance, December 31, 2016	**1,176,000**	**35.00%**
Release and cancellation for unmet performance milestone	(336,000)	(12.50%)
Balance, March 31, 2017	**840,000**	**22.50%**
Balance, December 31, 2016	**10,350,206**	
Balance, March 31, 2017	**6,956,137**	

As of March 31, 2017, the Company had 6,956,137 common shares, representing 9.79% of its issued and outstanding shares, held in escrow accounts.

8. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[i] On January 12, 2016, the Company closed a non-brokered private placement in the United States of 1,797,422 common shares and a non-brokered public offering in Canada of 3,500,000 common shares at a price of $0.50 per share for total gross proceeds of $2,648,711. Of these proceeds, $719,575 were collected and recorded as common share subscription received during the year ended December 31, 2015. In connection to this financing, the Company paid professional fees and other related financing costs of $133,534.

[ii] On September 13, 2016, the Company closed a public financing and issued 9,146,400 common shares at a price of $0.30 per share for total gross proceeds of $2,743,920. The public offering was co-led by Cormark Securities Inc. and Canaccord Genuity Corp. In connection to this financing, the Company paid commissions of $192,074, legal and professional fees of $79,940 and filing fees of $13,720.

[iii] On October 19, 2016, the Company issued 153,072 common shares as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC ("Camargo") for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided. The fair value of the shares is $51,279, which makes up a portion of the non-refundable start-up fee.

[iv**]** On March 13, 2017 the Company closed an agreement with Canaccord Genuity Corp. ("Canaccord") to which they agreed to purchase, on a bought deal basis, 17,250,000 units at a price of $0.30 per unit, for aggregate gross proceeds to the Company of $5,175,000. The 17,250,000 Units issued include 2,250,000 units issued and sold pursuant to the over-allotment option granted by the Company to Canaccord. Each unit is comprised of one common share of the company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for a period of two years at an exercise price of $0.45 per share, subject to adjustment in certain events.

In the event the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange is greater than $0.80 per common share for a period of 15 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof by way of press release and in such case the warrants will expire on the 30th day after such notice is given.

In connection to this financing, the Company paid $362,250 in commissions, $222,024 in legal and professional fees and $29,419 in filing fees. In addition, the Company issued 862,500 broker warrants in connection with the offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019.

[v] Pursuant to the terms of the TeOra acquisition and the terms of the escrow agreement *[note 8[b]]*, the Company cancelled 336,000 common shares relating to an unachieved performance milestone.

(Unaudited - Expressed in Canadian dollars)

8. 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, December 31, 2015	**4,319,778**	**0.75**
Expired	(4,319,778)	(0.75)
Balance, December 31, 2016	**Nil**	**Nil**
Issued *[note 8[b][iv]]*	8,625,000	0.45
Balance, March 31, 2017	**8,625,000**	**0.45**

[d] Agents' special warrants and broker's warrants

In connection with the 2015 Financing and 2016 bought-deal financing, the Company issued 123,750 and 862,500 broker warrants, respectively:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2015	**549,271**	**0.54**
Expired	(425,521)[i]	(0.55)
Balance, December 31, 2016	**123,750**[ii]	**0.50**
Issued pursuant to bought-deal financing *[note 8[b][iv]]*	862,500[iii]	0.30
Balance, March 31, 2017	**986,250**	**0.33**

[i] Each 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 until November 20, 2016. Each whole 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 issuance of the Agents' Warrant. These warrants expired unexercised.

[ii] Each broker warrant entitles the holder to acquire one common share in the capital of the Company at an exercise price of $0.50 per common share until October 30, 2017

[iii] The Company issued 862,500 broker warrants in connection with the offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019.

(Unaudited - Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[e] 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 Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the TSX Venture Exchange. On June 15, 2015 and August 19, 2016, the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 8,970,308 common shares. Under the Amended and Restated Stock Option Plan, 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 three months ended March 31, 2017 and 2016, the Company recorded share-based payments of $93,890 and $151,898, respectively. The fair values of share options granted during the three months ended March 31, 2016 (there were no grants during three months ended March 31, 2017) are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2017	2016
Risk-free interest rate	Nil	1.29%
Estimated annualized volatility based on comparable companies	Nil	103%
Expected life	Nil	8 years
Expected dividend yield	Nil	0%
Exercise price	Nil	$0.55
Fair value	Nil	$0.49
Share price	Nil	$0.56

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2015	**3,937,337**	**0.44**
Cancelled, expired or forfeited	(662,000)	**(0.55)**
Granted	1,950,000	**0.38**
Balance, December 31, 2016 and March 31, 2017	**5,225,337**	**0.40**

(Unaudited - Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
November 3, 2018	$0.31	400,000	200,000
December 2, 2018	$0.27	500,000	250,000
May 31, 2020	$0.25	1,124,337	1,124,337
December 12, 2021	$0.35	565,000	565,000
December 1, 2022	$0.55	50,000	37,500
December 18, 2022	$0.55	350,000	350,000
March 6, 2023	$0.55	465,000	465,000
July 9, 2023	$0.57	300,000	225,000
September 30, 2023	$0.55	421,000	356,000
April 21, 2024	$0.47	900,000	375,000
July 22, 2024	$0.35	150,000	37,500
Balance, March 31, 2017	**$0.40**	**5,225,337**	**3,985,337**

As of March 31, 2017, the weighted average remaining life for outstanding options was 4.75 years (December 31, 2016 - 5.09 years).

9. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Subcontract research and licensing fees[i]	—	135,817
Management fees[ii] [iii] [iv]	111,000	151,000
Consulting fees [v] [vi] [vii] [viii]	79,506	103,465
	190,506	**390,282**

[i] On August 1, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), 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. TRPL is controlled by Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis, two of the current directors of the Company. Pursuant to the terms of this research service contract which expired on November 30, 2016, 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 $Nil and $135,817 during the three months ended March 31, 2017 and 2016, respectively.

9. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $25,000 (December 31, 2016 – $25,000) due to TRPL.

[ii] Effective September 1, 2014, the Company entered into a management services agreement (the "**Northview Agreement**") with Northview Lifesciences (formerly Northview Ventures and Associates General Partnership) ("**Northview**"), Doug Janzen, and Anne Stevens. Mr. Janzen is Chairman, President, and Chief Executive Officer of the Company and Ms. Stevens is the Corporate Secretary, Chief Operating Officer and a director of the Company. Pursuant to the Northview Agreement, Mr. Janzen, Ms. Stevens and other employees of Northview, directed and managed the affairs and the day-to-day operations of the Company at a monthly rate of $27,000. Effective February 1, 2016, the monthly rate was increased to $37,000. Northview was entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development and general administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. The Northview Agreement expired on November 30, 2016. During the three months ended March 31, 2017, Northview did not charge any fees. During the three months ended March 31, 2016, Northview charged total management fees of $151,000 including a bonus of $50,000 for completing a financing milestone.

As of March 31, 2017, the Company included in its account receivable $12,980 due from Northview. Subsequent to March 31, 2017, Northview paid $7,095 relating to the receivable amount owing. As of December 31, 2016, the Company included in its accounts payable and accrued liabilities $50,115 due to Northview.

[iii] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("**NVI**") and Doug Janzen. Mr. Janzen is the Chairman, President, and Chief Executive Officer of the Company. Northview Ventures Inc. will be compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017 then $15,000 per month thereafter. During the three months ended March 31, 2017, NVI received $75,000 in compensation (2016 - $Nil).

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2016 – $26,250) due to NVI.

[iv] Effective December 1, 2016, the Company entered into a consulting agreement with Crecera Consulting Inc. ("**Crecera**") and Anne Stevens. Ms. Stevens is the Corporate Secretary, Chief Operating Officer and a director of the Company. Crecera will be compensated at a monthly rate of $12,000 from December 1, 2016 to March 31, 2017 then $12,500 per month thereafter. During the three months ended March 31, 2017, Crecera received $36,000 (2016 - $Nil) in compensation.

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2016 – $12,600) due to Crecera.

9. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

[vi] The Company entered into a consulting service agreement with Mr. Ian Ball who serves as the Chief Commercial Officer of the Company, effective July 28, 2015. Pursuant to this consulting agreement with a term to July 31, 2019, Mr. Ball is compensated at a monthly rate of $12,000. During the three months ended March 31, 2017, Mr. Ball charged total consulting fees of $36,000 (2016 - $36,000).

As of March 31, 2017, the Company has included in its accounts payable and accrued liabilities $9,318 (December 31, 2016 - $16,864) due to Mr. Ball.

[vii] The Company entered into a consulting service agreement with Dr. Don McAfee who serves as the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement with a term expiring on December 31, 2017, Dr. McAfee was compensated at a daily rate of US$1,000. During the three months ended March 31, 2017, Dr. McAfee charged total consulting fees of $20,048 (2016 - $33,465.)

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $Nil (December 31, 2016 - $6,307) due to Dr. McAfee.

[viii] The Company entered into a consulting service agreement with Ann Fehr and Fehr & Associates on July 22, 2016. Mrs. Fehr is the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $100 per hour. Fehr & Associates also provides a part time controller and book-keeping services to the Company. During the three months ended March 31, 2017, Fehr & Associates charged total consulting fees of $23,458 for CFO and accounting services.

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $2,321 (December 31, 2016 - $5,481) due to Fehr & Associates.

(Unaudited - Expressed in Canadian dollars)

9. RELATED PARTY DISCLOSURE (CONTINUED)

[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:

	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Management fees, General & administration	83,250	91,200
Management fees, Research & development	27,750	59,800
Consulting fees, General & administration	36,058	34,000
Consulting fees, Research & development	20,048	33,465
Consulting fees, Sales & marketing	23,400	36,000
Share-based payments, General & administration	26,012	56,500
Share-based payments, Research & development	3,131	825
Share-based payments, Sales & marketing	18,937	62,612
	238,586	**374,402**

10. COMMITMENTS AND CONTINGENCIES

[a] Operating lease

On April 9, 2015, the Company entered into a sublease agreement for its 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 basic rent of $8,893 and operating costs, currently estimated at $6,655, on a monthly basis starting June 1, 2015. The Company has entered into sublease agreements of the space providing monthly rental revenue of $5,700 to offset rent expense.

[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). The Company fulfilled its minimum financial commitment of $289,815 (US$261,000) during the fiscal year ended December 31, 2014. During the three months ended March 31, 2017, the Company incurred $123,983 (US$93.795). During the three months ended March 31, 2016, the Company had renegotiated with Corium for work conducted in the preceding year and recovered subcontract development costs of $67,719 (US$50,000).

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

[c] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 6[b]]*, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay US$2.15 million following a successful pre-submission meeting with Health Canada, US$2.5 million upon regulatory approval of Topiramate XR, and US$500,000 upon regulatory approval of Oxcarbazepine XR. The Company is also required to pay royalty payments based on net sales at a rate of 15%, as well as a milestone payment of US$1.5 million linked to achievement of a combined sales of US$25 million of Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

[d] 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 March 31, 2017 and December 31, 2016, 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.

11. OPERATING SEGMENT

The Company has a single operating segment, the sales and marketing of pharmaceutical drugs developed by the Company or by its collaborative partners. Substantially all of the Company's operations, assets, and employees are in Canada.

(Unaudited - Expressed in Canadian dollars)

12. OPERATING EXPENSES

[a] Research and development expenses

	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Consulting and management fees *[note 9[a]]*	108,362	63,715
Patent and intellectual property protection	33,536	5,062
Salaries and wages	2,118	3,622
Share-based payments	7,151	9,670
Subcontract research costs and development costs *[note9]*	245,991	84,539
Travel and accommodation	1,115	2,485
	398,273	**169,093**

[b] Sales and marketing expenses

	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Advertising and promotion	—	26,855
Consulting and management fees *[note 9]*	50,925	99,471
Depreciation and amortization	45,917	42,398
Printing and other expenses	15,637	1,400
Salaries and wages	10,590	18,500
Subcontract salesforce	150,810	142,598
Share-based payments	25,097	60,444
Travel and accommodation	50,169	52,197
	349,145	**443,863**

[c] General administration expenses

	Three Months Ended March 31, 2017 $	Three Months Ended March 31, 2016 $
Consulting and management fees *[note 9]*	255,177	359,607
Legal and professional fees	69,094	84,929
Other general administration expenses	89,065	69,897
Regulatory and transfer agent fees	14,601	18,131
Salaries and benefits	28,169	15,656
Share-based payments	61,642	81,784
Travel and accommodation	41,891	40,436
	559,639	**670,440**

13. 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 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 three months ended March 31, 2017.

14. 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.

[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 and cash equivalents 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 or cashable guaranteed investments ("**GIC**") invested only in Canadian Chartered Banks, and government guaranteed securities with maturities of one year or less. The Company did not have cashable GIC at March 31, 2017 or December 31, 2016. Amounts receivable consist of goods and services tax due from the Government of Canada, service fees owed from a collaborative partner and sublease rent owed from sub-tenants.

14. 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 March 31, 2017, the Company had working capital of $3,741,065 (December 31, 2016 - $59,142).

[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 March 31, 2017 and December 31, 2016, 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 U.S. 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 U.S. dollar could have an effect on the Company's results of operations, financial position or cash flows.

As at March 31, 2017 and December 31, 2016, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2017 US$	**December 31, 2016 US$**
Cash and cash equivalents	2,100	2,145
Accounts payable and accrued liabilities	(134,708)	(52,844)
Total	**(132,608)**	**(50,699)**

Based on the above net exposure as at March 31, 2017, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $6,630 (December 31, 2016 - $2,535) in the Company's net loss and comprehensive loss.

(Unaudited - Expressed in Canadian dollars)

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three months Ended March 31, 2017 $	Three months Ended March 31, 2016 $
Cash and cash equivalents consist of:		
Cash	4,059,367	117,677
Demand Deposits	—	650,000
	4,059,367	767,677
Non-cash transactions:		
Share issuance costs included in accounts payable and accrued liabilities	(137,499)	—

16. SUBSEQUENT EVENTS

[a] On February 1, 2017, the Company was granted funding up to a maximum of $90,220 from the National Research Council of Canada and Industrial Research Assistance Program ("NRC-IRAP") to support the ongoing Proof of Concept clinical study of its lead product candidate, AQS 1301, a once-weekly transdermal aripiprazole patch. Subsequent to March 31, 2017, the Company has received $89,927.

[b] On May 29, 2017, the Company issued 158,437 common shares to Camargo for $40,992 (USD 30,040) in service fees pursuant to a service agreement to provide end-to-end regulatory consulting services for the Company development programs.