MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of November 29, 2016

For the three and nine months ended September 30, 2016

This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the nine months ended September 30, 2016, and is performed by management using information available as of November 29, 2016. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2016, and the related notes thereto ("**Interim Financial Statements**"), as well as audited consolidated financial statements for the year ended December 31, 2015 and the related notes thereto ("**Annual Financial Statements**"). The Company's Interim Financial Statements and Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are expressed in Canadian dollars unless otherwise indicated.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws that may not be based on historical fact, including, without limitation, statements containing the words "believe", "may", "plan", "will", "estimate", "continue", "anticipate", "intend", "expect" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include but are not limited to statements relating to:

- *our ability to obtain funding for our operations, including funding for research and commercial activities;*
- *our ability to promote and market third party products and the anticipated timing thereof, including our ability to successfully market Tacrolimus IR and ^{PR}Vistitan^{TM} (Trademark owned or used under license by Sandoz Canada Inc.) in Canada;*
- *our anticipated regulatory submissions and commercial activities in Canada in respect of Topiramate XR and Oxcarbazepine XR;*
- *the expected benefits of Topiramate XR, Oxcarbazepine XR, Tacrolimus IR and ^{PR}Vistitan^{TM};*
- *our estimates of the size of the potential markets for Tacrolimus IR, ^{PR}Vistitan^{TM}, Topiramate XR, Oxcarbazepine XR and our internal product candidates;*
- *the intention to enrol patients in a follow-on POC study and Phase 1 Bioequivalence clinical trial for our transdermal aripiprazole patch;*
- *the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;*
- *our ability to advance product candidates into, and successfully complete, clinical trials;*
- *our ability to recruit sufficient numbers of patients for our future clinical trials;*
- *our ability to achieve profitability;*
- *the Company's ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;*
- *whether our third party collaborators will maintain their intellectual property rights in the technology we license;*
- *the manufacturing capacity of third-party manufacturers for our product candidates;*

- *the implementation of our business model and strategic plans;*
- *our ability to develop and commercialize product candidates;*
- *our commercialization, marketing and manufacturing capabilities and strategy;*
- *our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;*
- *our expectations regarding federal, provincial and foreign regulatory requirements;*
- *whether the Company will receive, and the timing and costs of obtaining, regulatory approvals in the U.S., Canada, the European Union and other jurisdictions;*
- *the therapeutic benefits, effectiveness and safety of our product candidates;*
- *the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our products and product candidates;*
- *the rate and degree of market acceptance and clinical utility of our future products, if any;*
- *the timing of, and our ability and our collaborators' ability, if any, to obtain and maintain regulatory approvals for our product candidates;*
- *our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;*
- *our ability to engage and retain the employees required to grow our business;*
- *the compensation that is expected to be paid to employees of the Company;*
- *our future financial performance and projected expenditures;*
- *developments relating to our competitors and our industry, including the success of competing therapies that are or become available; and*
- *estimates of our expenses, future revenue, capital requirements and our needs for additional financing.*

Such statements reflect our current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Aequus, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including, but not limited to: (i) obtaining positive results of clinical trials; (ii) obtaining regulatory approvals; (iii) general business and economic conditions; (iv) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (v) the assumption that our current good relationships with our manufacturer and other third parties will be maintained; (vi) the availability of financing on reasonable terms; (vii) the Company's ability to attract and retain skilled staff; (viii) market competition; (ix) the products and technology offered by the Company's competitors; and (x) the Company's ability to protect patents and proprietary rights.

*In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined under the heading "Risk Factors" in the Company's 2016 Annual Information Form ("**2016 AIF**") filed on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.*

OVERVIEW

Aequus (TSX-V: AQS) is a growing specialty pharmaceutical company, with a diversified portfolio of internally developed early stage products as well as a number of commercial stage, third party products that fulfill an identified unmet medical need. Our development pipeline is focused on advancing products in the areas of neurology, psychiatry and women's health, with a goal of addressing the need for improved medication adherence through enhanced delivery systems. Aequus intends to commercialize its internal programs in Canada alongside its current portfolio of marketed established medicines and will look to form strategic partnerships that would maximize the reach of its product candidates worldwide. Aequus currently promotes two specialty therapeutic products in Canada, and plans to build on its Canadian commercial platform through the launch of additional products that are either created internally or brought in through an acquisition, license or promotional agreement; remaining focused on highly specialized therapeutic areas. Aequus' management team has a proven track record of successfully managing the required clinical development, regulatory approval processes and marketing of products either directly or through partners. We continue to leverage our internal capabilities and know-how to execute an efficient commercial strategy and development plan to drive shareholder value.

GROWTH STRATEGY

Aequus has evolved from a purely development stage company to a revenue-generating, fully integrated specialty pharmaceutical company with development stage products and commercial activities in Canada. We look to leverage our existing core capabilities, infrastructure and existing product portfolio to continue on our growth trajectory. Our near-term growth strategy includes the following key components:

- Advance our development programs through proof of concept clinical studies and regulatory meetings with the FDA, with the objective to add sufficient value to execute at least one regional license in the near term;
- Progressive build-out of our commercial platform, leveraging our established medicines specialty sales force in Canada to enable us to continue to in-license and sell high value branded products in Canada.

Over the past 12 months, Aequus has in-licensed two products, launched two products in the Canadian market, and supported the advancement of its internal programs. These activities support the key areas of Aequus' growth strategy.

The following is a summary of the transactions and activities completed since September, 2015:

Development Program Activities

- Advanced our lead development program, AQS1301, a once-weekly transdermal formulation of aripiprazole through an initial proof of concept study, demonstrating sustained, seven-day delivery of therapeutic doses may be possible with the current formulation. A follow-on proof of concept study is planned for late 2016, following Health Canada approval of the Clinical Trial Application. Aequus has also expanded the patent portfolio for this program with a patent issue / allowed in six major countries or regions to date, including the US, Russia, Mexico, Japan, Australia and Canada with several other major markets pending.

- Advanced our long-acting transdermal clobazam program for the treatment of epilepsy and our long-acting transdermal doxylamine/pyridoxine combination patch program for the treatment of nausea and vomiting in pregnancy (NVP) through technical feasibility studies and have filed international patent applications for each program covering the formulations expected to be advanced into Proof of Concept clinical studies over the following six months.

- Engaged with Camargo to prepare for pre-Investigational New Drug (pre-IND) meetings with the FDA which are expected to define the clinical strategy for regulatory approval in the US for each of our three internal programs. Each program is expected to follow a Section 505(b)2 New Drug Application (NDA), an abbreviated clinical pathway in which the FDA would allow Aequus to reference safety and efficacy data of the original formulation.

Commercial Activities

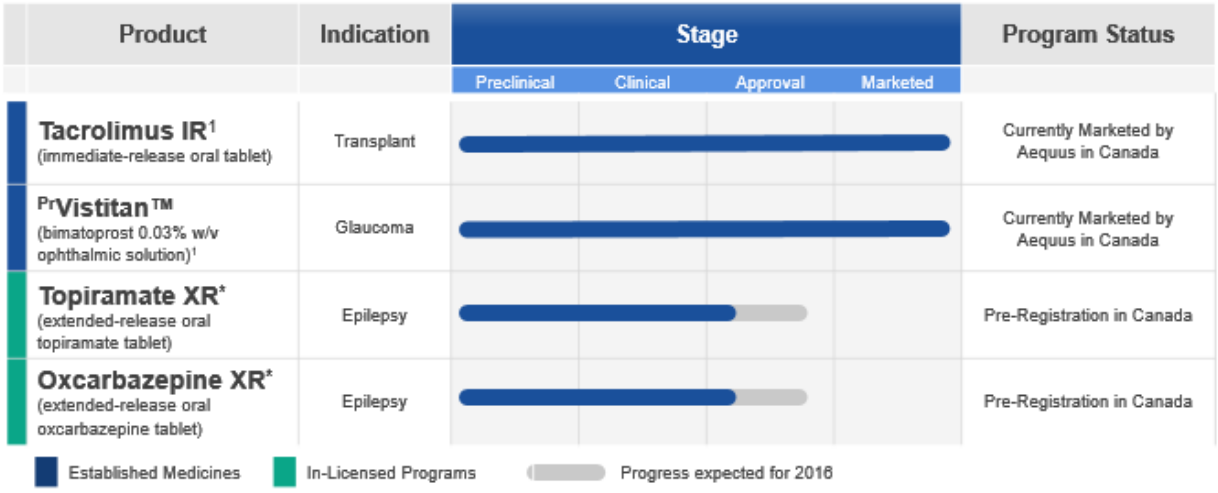
- In October, 2015, Aequus became the exclusive promotional and marketing partner for three transplant products, including the first to market generic form of tacrolimus IR. The three products had already been approved by Health Canada. Aequus began promoting tacrolimus IR for the treatment and prevention of acute rejection following organ transplantation in December, 2015.

- Launched promotional efforts in Canada for PRVistitan™, a treatment for the reduction of elevated intraocular pressure ("IOP") in patients with open angle glaucoma or ocular hypertension. Aequus has demonstrated our commercial capabilities by obtaining multiple provincial formulary listings within the first six month of PRVistitan™'s launch, including the Ontario Drug Benefit Plan.

- In-licensed Canadian commercial rights to two branded epilepsy products: extended-release topiramate tablets and extended-release oxcarbazepine tablets from Supernus Pharmaceuticals Inc. Aequus has since had on-going dialogue with Health Canada around the acceptability of the FDA clinical package and foreign market experience, and expects to file a New Drug Submission ("NDS") in 2017. Both products are branded, once-daily, medications for the treatment of epilepsy, and have been successfully marketed by Supernus in the US since 2013.

We plan to continue our investment in the short-term to maximize the potential of our existing products, and will continue to seek opportunities to add to our Canadian commercial activities to further strengthen our existing sales infrastructure.

COMMERCIAL PRODUCTS



[1] *Aequus carries out the Canadian promotional activity for products owned by an undisclosed partner*
Figure 1. Aequus' Canadian commercial pipeline

TACROLIMUS IR

On September 29, 2015, the Company entered into a binding term sheet (the "**Term Sheet**") with an unnamed partner in Canada which provides Aequus an exclusive right to promote and market Tacrolimus IR, a first to market generic transplant product. Aequus began promotional activities for Tacrolimus IR in December, 2015 and receives a tiered revenue split on incremental sales of the product over the established baseline set prior to promotion.

Tacrolimus immediate release is an immunosuppressant used for the treatment and prevention of acute rejection following organ transplantation. Tacrolimus is part of a patient's immunosuppressive therapy prescribed chronically in their lifelong management to prevent graft rejection. Tacrolimus is recommended as a first line calcineurin inhibitor treatment by the BC Transplant consensus guidelines and is prescribed in >90% of new kidney transplant patients (OPTN/SRTR 2014). Due to the chronic risk of graft rejection, tacrolimus has been classified as a Critical Dose Drug with a Narrow Therapeutic Index. In Canada, tacrolimus is available in an immediate release form, marketed under the brand name of Prograf® in Canada, and in an extended-release form, marketed under the brand name of Advagraf® in Canada. Aequus is promoting the first to market generic version of Prograf®.

In 2015, the immunosuppressive market in Canada reached $241M in sales, with tacrolimus products accounting for $100M. Since Aequus began detailing Tacrolimus IR in December 2015, average year-over-year unit sales for December to September have increased by approximately 85% based on IMS data.

[PR]VISTITAN™ (bimatoprost 0.03%, ophthalmic solution)

The second product promoted by Aequus' salesforce is a branded generic ophthalmology product, [PR]Vistitan™ (bimatoprost 0.03%, ophthalmic solution), obtained through the acquisition of Teora Health Ltd. on July 13, 2015. Commercial activities for this product commenced in May 2016. Similar to tacrolimus IR, Aequus will split revenues of this product with its partner in a tiered structure.

Bimatoprost 0.03% is a prostaglandin approved by Health Canada for the reduction of elevated IOP in patients with open angle glaucoma or ocular hypertension. The Canadian glaucoma market in 2015 was estimated to be over $182 million, of which prostaglandins remain one of the primary treatment options for lowering IOP in glaucoma. There were an estimated 350,000 people living with glaucoma in Canada in 2015. The disease is the second leading cause of blindness worldwide, but is asymptomatic, which means that more than half of people are unaware they have it. The incidence of glaucoma is highest in patients above the age of 80, but onset may be as early as 40 years of age. IOP-lowering drugs are prescribed as soon as the disease is diagnosed and must be taken chronically to prevent vision loss. Prostaglandins are the first-line approach among IOP-lowering agents, in 2015 bimatoprost accounted for 42% of all prostaglandin prescription volume in Canada (IMS Health)

[PR]Vistitan™, which was approved by Health Canada in 2014, is currently the only marketed version of 0.03% bimatoprost ophthalmic solution in Canada.

TOPIRAMATE XR and OXCARBAZEPINE XR *(marketed under the tradenames of Trokendi XR® and Oxtellar XR® in the United States)*

The third and fourth products in the Company's commercial pipeline were acquired pursuant to the Supernus Agreement, whereby the Company acquired the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. Both products are branded, once-daily, extended-release anti-epileptic drugs (**"AEDs"**), and have been successfully marketed by Supernus in the U.S. since 2013 under the tradenames Trokendi XR® and Oxtellar XR®, respectively.

Under the terms of the Supernus Agreement, Aequus will be responsible for the regulatory submission and commercial activities for both products in Canada. Supernus is eligible to receive milestone payments and royalties from product sales in Canada. Aequus has since had on-going dialogue with Health Canada around the acceptability of the FDA clinical package and foreign market experience, and expects to file a New Drug Submission ("NDS") in 2017.

Topiramate XR
(under the tradename of Trokendi XR® in the United States)

Topiramate XR is a once-daily topiramate product designed to improve patient compliance and to show a better pharmacokinetic profile than the currently available immediate release products, which must be taken multiple times per day. The currently approved immediate release form of topiramate in Canada is approved for use in epilepsy and prophylactic migraine. Topiramate XR's pharmacokinetic profile results in lower peak plasma concentrations, higher trough plasma concentrations, and slower input rate. This results in smoother and more consistent blood levels of topiramate than immediate release topiramate formulations can deliver. Such a profile may mitigate blood level fluctuations that are frequently associated with many of the symptomatic side effects or breakthrough seizures that patients can suffer when taking immediate release products. Side effects can lead patients to skipping doses, whereupon the increased non-adherence could place them at higher risk for breakthrough seizures.

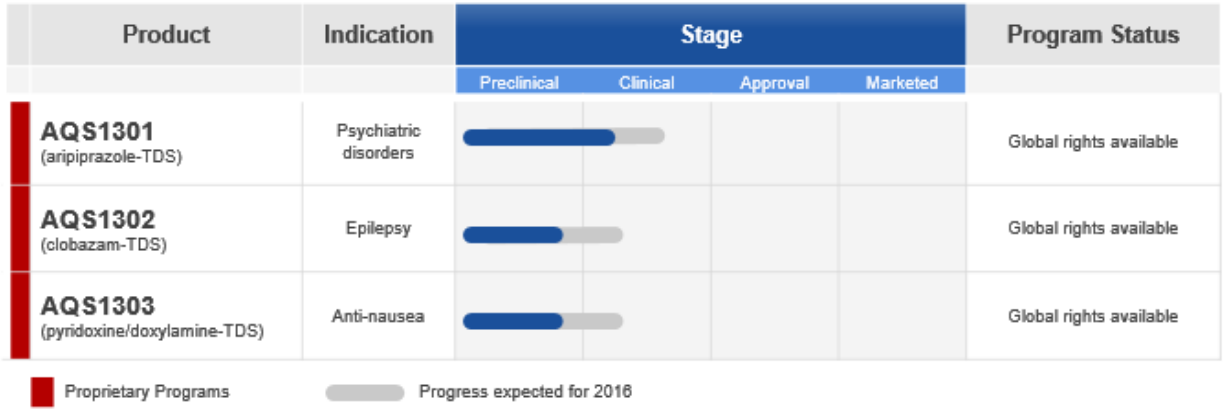
Oxcarbazepine XR
(under the tradename of Oxtellar XR® in the United States)

Oxcarbazepine XR is a once-daily oxcarbazepine product with a novel pharmacokinetic profile showing lower peak plasma concentrations, a slower rate of input, higher trough plasma concentrations, and smoother and more consistent blood levels compared to immediate release products. The currently approved immediate release form of oxcarbazepine in Canada is approved for use in partial seizures in epilepsy. Oxcarbazepine XR has the potential to improve the tolerability of oxcarbazepine and thereby reduce side effects. This could enable more patients to tolerate higher doses of oxcarbazepine which would permit them to benefit from the resulting improved efficacy and greater seizure control, which has previously been reported in patients taking higher doses. Patients taking higher doses of immediate release oxcarbazepine are often unable to tolerate the increased side effects. In addition, Oxcarbazepine XR once-daily dosing regimen is designed to improve patient compliance compared to the currently available immediate release products that must be taken multiple times per day.

The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Topiramate XR and Oxcarbazepine XR include: (i) improved patient adherence with a once-daily dosing regimen, making it more probable that patients maintain sufficient level of medication in their bloodstream to protect against seizures; (ii) delivery of lower peak plasma concentrations and lower input rate over an extended time period, resulting in smooth and consistent blood levels of topiramate or oxcarbazepine during the day; and (iii) avoidance of blood level fluctuations that can be associated with symptomatic side effects or breakthrough seizures.

PRODUCT DEVELOPMENT PIPELINE

Figure 2. Aequus' Development Pipeline



AQS1301 – Once-weekly transdermal aripiprazole

Key Highlights

- Aequus' 1301 program is a once-weekly transdermal formulation of aripiprazole
- Among the four currently approved indications, extensive primary research has validated the greatest unmet need in Bipolar I Disorder, based on primary research feedback
- Proof of Concept clinical studies are underway, anticipating approval via the 505(b)2 accelerated approval pathway in the United States

Product Overview

The total world-wide anti-psychotic market in 2014 was approximately $16 billion. At that time, aripiprazole (Abilify®) was the market leader with 45% market share, representing approximately $8.2 billion in world-wide sales, according to IMS Health data.

AQS1301 is designed to consistently deliver aripiprazole over a seven-day period at levels comparable to currently marketed once-daily formulations. By delivering aripiprazole over seven days in a comfortable, convenient and easy-to-use weekly patch, AQS1301 is intended to promote enhanced patient compliance.

Aequus has advanced the once-weekly, transdermal aripiprazole patch with its development and manufacturing partner, Corium International, Inc. Aequus successfully completed an initial proof of concept study for AQS1301 in December 2015, demonstrating that sustained, seven-day delivery of therapeutic doses may be possible with the current formulation. A follow-on proof of concept study is planned for late 2016, following Health Canada approval of the Clinical Trial Application.

It is expected that this product would follow a Section 505(b)(2) New Drug Application ("**NDA**") with the FDA for regulatory approval in the US, where the development of a new dosage form for an already approved drug, such as a change from a solid oral dosage form to a transdermal patch, can rely to some extent on previous safety and/or efficacy data provided by the literature or can reference past findings of safety and effectiveness for the approved drug. Aequus engaged Camargo in October, 2016 to prepare for a pre-Investigational New Drug (pre-IND) meeting with the FDA, expected in early 2017 in an effort to further define the clinical strategy for regulatory approval in the US.

Aequus owns a patent for the transdermal formulation of aripiprazole that has been issued/allowed in six major countries or regions, including the US, Russia, Mexico, Japan, Canada and Australia, and is pending in multiple additional territories.

AQS1302 – Long-acting transdermal clobazam

Key Highlights

- Clobazam is used for the treatment of epilepsy globally, with the exception of the US where it is approved specifically for a severe form of epilepsy, Lennox-Gastaut Syndrome (LGS). Clobazam is also used for the treatment of anxiety in European and Latin American countries
- AQS1302 is expected to provide the first transdermal alternative to oral antiepileptic drugs (AED)
- Skin tolerability studies to date have shown positive safety data, Aequus expects to enter Proof of Concept clinical studies by Q1 of 2017, anticipating approval via the 505(b)2 accelerated approval pathway in the United States

Product Overview

Clobazam is a unique AED associated with fewer sedative side effects than other agents in its class (Sankar 2012). It is currently marketed worldwide (ex-US) for the treatment of epilepsy, anxiety and alcohol withdrawal under the brand name Frisium®. It was approved in the United States in 2013 for LGS under the brand name Onfi®. In 2015, US sales of clobazam reached $370 million USD. Clobazam is currently available as oral tablets and as a solution, dosed twice daily, and can be challenging for a caregiver or parent to administer, particularly in patients with severe, debilitating epilepsies such as LGS where difficulty swallowing is common. A long-acting form of clobazam in a non-invasive and easy to use patch is being developed to relieve this burden on patients and caregivers.

The formulation for AQS1302 is currently being optimized and has shown *in-vitro* to deliver the flux profile required for once-daily and up to seven days of therapeutic doses. Aequus has completed skin irritation and sensitization study *in-vivo* in animal models and expects to advance this program into a Proof of Concept clinical study in 2017. Similar to AQS1301, Aequus expects to follow a 505(b)2 pathway in the United States for AQS1302 which will be further defined as the Company obtains Proof of Concept clinical data and obtains feedback from the FDA through a pre-IND meeting to further define the clinical plan.

Aequus has filed an international patent application with the US Patent and Trademark Office (USPTO) that covers transdermal extended-release formulations of clobazam and owns the worldwide rights to the formulations described in the patent application.

AQS1303 – Long-acting transdermal pyridoxine / doxylamine

Key Highlights

- The first-line, only on-label intervention for nausea and vomiting of pregnancy (NVP) is limited by its current oral delivery system, Aequus' transdermal alternative provides a non-oral alternative
- Skin tolerability studies to date have shown favorable safety data, Aequus expects to enter Proof of Concept clinical studies in 1Q17, anticipating approval via the 505(b)2 accelerated approval pathway in the United States

Product Overview

Doxylamine/pyridoxine is currently marketed as Diclegis® (US)/Diclecitin® (Canada) for the treatment of nausea and vomiting of pregnancy (**"NVP"**), as an oral tablet dosed up to four times per day. Diclegis is the only FDA approved medication for morning sickness in pregnant women and in 2015 reached US sales of approx. $120 million USD. A long-acting transdermal form of doxylamine/pyridoxine is being developed by Aequus to address the risk of missed doses due to emesis (vomiting) and to provide consistent symptomatic relief.

Aequus has demonstrated the current formulation can deliver the flux profile *in-vitro* required for once-daily and up to seven days of therapeutic doses. Aequus has completed skin irritation and sensitization study *in-vivo* in animal models and expects to advance this program into a Proof of Concept clinical study in the first half of 2017. Aequus expects to follow a 505(b)2 pathway in the United States for AQS1303 which will be further defined as the Company obtains Proof of Concept clinical data and presents the FDA the clinical plan during a pre-IND meeting.

Aequus has filed an international patent application with the US Patent and Trademark Office (USPTO) that covers transdermal extended-release formulations of the combination of doxylamine and pyridoxine. Aequus owns the worldwide rights to the formulations described in the patent application.

Clinical Development Timeline

Aequus plans to advance the development of AQS-1301 through to completion of the Phase 1 Bioequivalence study in the next two years. Concurrent with the Phase 1 clinical programs for AQS-1301, Aequus anticipates engaging in partnering discussions. In the next two years, Aequus also plans to accelerate its second and third internal programs, AQS-1302 and AQS-1303, through formulation development and Proof of Concept clinical studies. The Company's product development progress is contingent upon a number of factors. See the heading "*Risk Factors*" in the Company's 2016 AIF. There can be no assurances that Aequus will complete each stage of development in accordance with the timelines set out above, or at all.

Out-Licensing Activities

Aequus continues to pursue development collaborators and marketing partners for its internal programs in markets outside of Canada.

OVERALL PERFORMANCE

Since its inception in January 2013, Aequus has accumulated a deficit of $12,695,242 as at September 30, 2016. The Company has started to generate revenue from its commercial platform during the nine months ended September 30, 2016. Aequus expects its operating losses to continue into the next fiscal year as it builds its commercial platform and invests in the product advancement of AQS-1301, AQS-1302, and AQS-1303.

The Company has funded its operations with proceeds from equity financings, and expects to seek additional funding through equity financings and partnership collaborations to finance its product development, commercial product portfolio, and corporate growth. However, if Aequus' product development and commercial activities do not show positive progress, or if capital market conditions in general or with respect to the life sciences sector or development stage companies such as Aequus are unfavorable, its ability to obtain additional funding will be adversely affected.

DISCUSSION OF OPERATIONS

Aequus recorded a net loss of $1,089,532 during the three months ended September 30, 2016 ("**Q3 2016**") and $1,363,680 in the three months ended September 30, 2015 ("**Q3 2015**"). On a year to date basis, net loss for the nine months ended September 30, 2016 ("**YTD 2016**") was $3,643,362 as compared to $3,632,829 for the same period in the preceding year ("**YTD 2015**"). Net loss was $274,148 less in Q3 2016 than Q3 2015 and $10,533 more YTD 2016 compared to YTD 2015 as the company has increased sales and marketing spending to build market infrastructure for its two commercially promoted products, Tacrolimus IR and [PR]Vistitan™. This is offset by slowed research and development spending as the Company awaits its next clinical study for AQS-1301. Furthermore, the Company has started to generate revenue streams to offset expenses.

Specifically, the decrease of $274,148 in net loss in Q3 2016, as compared to Q3 2015, and the increase of $10,533 in net loss in YTD 2016, as compared to YTD 2015, was due to the Company earning revenue of $300,549 in Q3 2016 and $534,732 YTD 2016 to offset expenditures. Expenditures were relatively consistent when comparing Q3 2016 and 2015 at $1,421,124 and $1,413,194, respectively. There is an increase in expenditures YTD 2016 when compared to YTD 2015 of $528,967 but this increase has also been offset by the revenue generated in YTD 2016 of $534,732. Operating expenditures linked to sales and marketing activities were higher as the Company built its newly acquired commercial platform. Expenditures associated with research and development activities were lower as the Company completed its first POC study on AQS-1301 in February 2016 and awaits the second POC study in December 2016. General and administration expenses were fairly consistent for the quarter and YTD 2016 compared to the prior year as the Q3 2016 spend was approximately $6K less than Q3 2015 and $39K more for YTD 2016 compared to YTD 2015 as the company utilized the services of consultants to perform regulatory and business development services and paid less share-based payments. The following table provides an overview of the financial results in Q3 2016 as compared to those in Q3 2015:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Revenue	300,549	—	534,732	—
Operating expenditures:				
Research and development	371,824	704,073	832,665	1,689,931
Sales and marketing	346,026	—	1,347,601	—
General administrations	703,274	709,121	2,030,200	1,991,568
	1,421,124	1,413,194	4,210,466	3,681,499
Loss before other income (loss)	(1,120,575)	(1,413,194)	(3,675,734)	(3,681,499)
Other income	31,043	49,514	32,372	48,670
Net loss	**(1,089,532)**	**(1,363,680)**	**(3,643,362)**	**(3,632,829)**

The Company recorded its first revenues since its inception in Q1 2016 attributable to its first commercially promoted third party product, Tacrolimus IR. Aequus initiated promotional and marketing activities for its second commercial third party product, [PR]Vistitan™, on April 28, 2016. Revenues are expected to continue in the current fiscal year as the generic products begin to penetrate market share held by branded products. Revenues grew by 154% when comparing Q3 2016 to Q2 2016. Sales levels are expected to be inconsistent and unpredictable over the next twelve months as third party products sales programs are launched into all Canadian provinces and inventory stock-up occurs.

Research and Development Expenses

Research and development expenses were $371,824 in Q3 2016, as compared to $704,073 in Q3 2015 and $832,665 in YTD 2016 compared to $1,689,931 in YTD 2015. The decrease of $332,249 between Q3 2016 and Q3 2015 and $857,266 between YTD 2016 and YTD 2015 was attributable to slower activities as the Company prepared for its next clinical study in December 2016 following the completion of the POC study on AQS-1301 in February 2016. Expenditures in Q3 2016 and YTD 2016 were related to the preparations for the follow-on study for AQS-1301 and preclinical studies of AQS-1302 and AQS-1303. Expenditures in Q3 2015 and YTD 2015 were primarily associated with the formulation optimization and prototype development of AQS-1301, as well as formulation assessment of AQS-1302. Specifically, variances in research and development expenditures in Q3 and YTD 2016 as compared to those in comparison to Q3 and YTD 2015 were as follows:

- Patent and intellectual property costs increased by $26,017 for Q3 2016 compared to Q3 2015 and $55,958 YTD 2016 compared to YTD 2015 due to increased services and filing fees related to the conversion of provisional applications for both AQS 1302 and AQS 1303 into international patent applications with the USPTO. Additionally, there were services and filing fees associated with patents granted for AQS 1301 in Australia, Japan, Mexico and Russia.

- Subcontract research and development costs declined by $395,623 for Q3 2016 compared to Q3 2015 and $856,439 YTD 2016 compared to YTD 2015 due to the completion AQS-1301 POC study and a renegotiation of cost for subcontract work in the preceding year. The renegotiation allowed the Company to recover $67,719 of development costs from its subcontractor. Subcontract costs in Q3 2015 were primarily related to (i) prototype development and clinical study preparation of AQS1301 at Corium and (ii) formulation optimization of AQS1302 and AQS1303 at TRPL

- Share-based payments decreased by $21,946 from Q3 2015 to Q3 2016 and $17,213 YTD 2015 to YTD 2016 as there was less unvested stock options to be amortized relating to research and development.

- Other research and development costs including consulting and management fees, office and others, salaries and wages, and travel and accommodation, increased by $59,303 for Q3 2016 compared to Q3 2015 due to upfront non-refundable fees paid to Camargo for regulatory consulting services for the Company's three development programs of $125,726 ($95,850 USD) in cash and shares. YTD 2016 decreased by $39,572 compared to YTD 2015 due to slower activities as the Company prepared for its next clinical trial for AQS-1301 schedule for December 2016. During Q3 and YTD 2016, the Company assigned its internal staff to support certain research and development activities and allocated salaries and wages of these staff accordingly.

The following table summarizes the Company's research and development expenditures in Q3 2016 and YTD 2016, as compared to those in the same periods in the preceding year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Consulting and management fees	175,496	106,803	297,145	313,226
Office and other	—	—	218	—
Patent and intellectual property protection	59,798	33,781	131,841	75,883
Salaries and wages	3,029	—	10,769	—
Share-based payments	8,512	30,458	37,836	55,049
Subcontract research and development costs	124,989	520,612	352,371	1,208,810
Travel and accommodation	—	12,419	2,485	36,963
	371,824	**704,073**	**832,665**	**1,689,931**

Sales and Marketing Expenses

Aequus incurred sales and marketing expenses of $346,026 for the quarter and $1,347,601 YTD 2016 in connection with its newly acquired commercial division through the acquisition of TeOra in July 2015. Commercial activities in Q3 and YTD 2016 were primarily related to the sales and marketing of Tacrolimus IR and launching [PR]Vistitan™ in Canada. Specifically, sales and marketing expenditures in Q3 and YTD 2016 were:

- Consulting and management fees paid to consultants, including a new Chief Commercial Officer (CCO), Vice President of Marketing and one-time [PR]Vistitan™ related market access consulting costs of $80,000, were $90,483 and $317,667 for the three and nine months ended September 30, 2016.

- Depreciation and amortization and share-based payments were $42,398 and $26,963 for Q3 2016, respectively. YTD 2016 costs for depreciation and amortization and share-based payments were $127,192 and $162,507, respectively. The amortization costs were related to the acquisition costs of TeOra. Aequus allocated $847,945 and $391,440 of its acquisition costs to intangible assets and deferred share-based payments, respectively. Intangible assets are amortized over a five-year period using a straight-line method; one half of the amortization is recognized in the year of acquisition. Share-based payments to TeOra principals joining Aequus as CCO and Vice President of Marketing, are deferred and expensed using the graded vesting approach.

- Subcontract costs for salesforce covering promotional and marketing activities for Tacrolimus IR and [PR]Vistitan™ in different regions in Canada were $79,066 and $379,343 for Q3 and YTD 2016, respectively. Aequus received a credit for overpayment of services of $115,437 that reduced expense in Q3 and YTD 2016.

- Other sales and marketing expenditures including advertising and promotion, printing costs, internal support staff, as well as travel and accommodation were $107,116 and $360,892 for Q3 and YTD 2016 to support the Company's commercial efforts.

The following table provides a detailed breakdown of Aequus' sales and marketing expenditures in Q3 2016 and YTD 2016, as compared to those in the same periods in the preceding year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Advertising and promotion	58,708	—	129,849	—
Consulting and management fees	90,483	—	317,667	—
Depreciation and amortization	42,398	—	127,192	—
Printing and other sales expenses	97	—	24,119	—
Salaries and wages	21,049	—	59,721	—
Share-based payments	26,963	—	162,507	—
Subcontract salesforce	79,066	—	379,343	—
Travel and accommodation	27,262	—	147,203	—
	346,026	**—**	**1,347,601**	**—**

General Administration Expenses

General administration expenses were $703,274 in Q3 2016 as compared to $709,121 in Q3 2015 and $2.03M YTD 2016 compared to $1.99M YTD 2015. The decrease of $5,847 in Q3 2016 compared to Q3 2015 and increase of $38,632 YTD 2016 compared to YTD 2015 in general administration expenses was primarily due to an increase in business development and regulatory consultant spend and increase in legal and professional fees offset by less regulatory, transfer agent and listing fees, share based payments, and salaries and benefits. Specifically, variances in general administration expenditures in Q3 and YTD 2016 as compared to those in comparison to Q2 and YTD 2015 were as follows:

- Consulting and management fees increased by $103,428 in quarterly comparative and $445,490 for YTD comparative as the Company assessed different business development and financing opportunities, and granted Management performance bonuses linked to corporate finance milestones as detailed in the Related Party Transaction section in this MD&A.

- Legal and professional fees increased by $87,492 and $24,050 comparing quarter and YTD comparatives in the prior year, respectively, due to the negotiation of regulatory consulting contract with Camargo, exploration of business development opportunities, amendment of stock option plan, and financing related professional fees.

- Regulatory, transfer agent and listing fees declined by $37,164 and $232,681 comparing quarter and YTD, respectively, due to non-recurring costs associated with the TSX-V Listing in the preceding year.

- Share-based payments decreased by $120,826 comparing 2016 Q3 to 2015 Q3 and $217,060 comparing YTD 2016 and 2015. This was due to an option grant being granted in Q3 2015 which provided for a substantial number of options to vest immediately upon issuance.

- Other general administration overhead decreased by $5,548 comparing quarters and increase by $33,757 comparing YTD primarily due to higher publication subscription fees and business insurance costs.

- Salaries and benefits decreased by $24,103 and $27,998 in quarterly and YTD comparisons due to allocation of personnel costs. The Company had expanded its support team and started allocating their costs based on nature of activities performed rather than accounting them as general administration overhead.

- Travel and accommodation costs decreased by $9,126 and increased by $13,074 for Q3 2016 over Q3 2015 and YTD 2016 over YTD 2015, respectively, due to a slower travel quarter but increased attendance of business development meetings and investor tradeshows YTD.

The following table summarizes Aequus' general administration expenditures in Q3 2016 and YTD 2016, as compared to those in the same periods in the preceding year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Consulting and management fees	324,582	221,154	966,794	521,304
Legal and professional fees	117,462	29,970	248,856	224,806
Other general administration expenses	96,716	102,264	257,984	224,227
Regulatory, transfer agent and listing fees	17,625	54,789	51,897	284,578
Salaries and benefits	12,119	36,222	49,811	77,809
Share-based payments	105,976	226,802	349,738	566,798
Travel and accommodation	28,794	37,920	105,120	92,046
	703,274	**709,121**	**2,030,200**	**1,991,568**

QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected unaudited consolidated financial data for each of the last eight fiscal quarters, prepared in accordance with IFRS:

	Quarter Ended			
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	("Q3 2016")	("Q2 2016")	("Q1 2016")	("Q4 2015")
	$	$	$	$
Revenue	300,549	118,100	116,083	—
Research and development expenditures	371,824	291,748	169,093	454,557
Sales and marketing expenditures	346,026	577,712	443,863	555,177
General administration expenditures	703,274	656,486	670,440	363,918
Other income (loss)	31,043	(1,319)	2,648	(4,925)
Net loss for the period	(1,089,532)	(1,389,165)	(1,164,665)	(1,378,577)
Basic and diluted loss per common share	(0.02)	(0.03)	(0.03)	(0.04)

	Quarter Ended			
	September 30, 2015	**June 30, 2015**	**March 31, 2015**	**December 31, 2014**
	("Q3 2015")	**("Q2 2015")**	**("Q1 2015")**	**("Q4 2014")**
	$	**$**	**$**	**$**
Revenue	—	—	—	—
Research and development expenditures	704,073	606,272	379,586	437,985
Sales and marketing expenditures	—	—	—	—
General administration expenditures	709,121	548,315	734,131	925,418
Other income (loss)	49,514	11,667	(12,511)	13,677
Net loss for the period	(1,363,680)	(1,142,920)	(1,126,228)	(1,349,726)
Basic and diluted loss per common share	(0.04)	(0.03)	(0.04)	(0.05)

Variations in the Company's net losses and expenses for the periods above resulted primarily from the following factors:

- Revenue was first recorded in Q1 2016. The Company generated revenue from the profit share arrangement on sales of Tacrolimus IR in Q1 2016 and for promotional and marketing activities for its second commercial product, [PR]Vistitan™ in April 2016. Revenue is expected to have variations quarter to quarter over the next year, as customers stock up and product sales launch across Canada.

- Research and development expenditures trended upwards until Q3 2015 as Aequus advanced its product development of AQS-1301 through clinical POC testing. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) formulation assessment work of AQS-1301 which started and completed in Q3 2014 and Q4 2014, respectively; (ii) formulation optimization and prototype development work of AQS-1301 which began in Q1 2015 and completed in Q3 2015; (iii) clinical product manufacturing of AQS-1301 in Q3 2015; and (iv) POC clinical study of AQS-1301 which started in Q3 2015 and completed in Q1 2016.

- Sales and marketing expenses were first accounted separately in Q4 2015. Certain sales and marketing expenditures in Q3 2015 were reclassified in Q4 2015; otherwise, sales and marketing expenses were upward trending as the Company built its commercial platform to promote and market Tacrolimus IR and [PR]Vistitan™.

- General administration expenses fluctuated based on corporate finance and business development activities. These activities had led to (i) the listing of Common Shares of the Company on the OTCQB listing in United States and the TSXV Listing in Q3 2015 and Q1 2015, respectively, and (ii) signing of a multi-product collaboration agreement with Corium in Q2 2015. Otherwise, general and administration trended upwards as the Company added personnel and built its corporate infrastructure to support its expanded operations.

- Other income (loss) fluctuated based on (i) the receipt of various government incentives including research grants, new graduate employment grants and refundable research tax credits and (ii) foreign exchange losses from transactions requiring U.S. dollar settlement and translation due to the strengthened U.S. dollar against the Canadian dollar until Q1 2016.

SUBSEQUENT TO SEPTEMBER 30, 2016

On October 3, 2016, the Company announced it has entered into a service agreement with Camargo Pharmaceutical Services, LLC **("Camargo").** Camargo will be providing end-to-end regulatory consulting services for Aequus' three development programs, including pre-Investigational New Drug (pre-IND) meeting planning and preparations through to New Drug Applications (NDA) submissions. The invoice milestones up to pre-IND meeting for each of the three development programs will cost $80,000 USD in cash and $64,000 USD in shares, respectively. Upon completion of the pre-IND meeting, the Company will have the option to continue with other major components to be required for approval under the 505 (b)(2) regulatory pathway. Estimated payments of these major components are $1,098,000 USD in cash and shares for each of the development programs over the next three to four years. The company issued 153,072 shares for total value $42,600 USD and $53,250 USD in cash as a non-refundable payment upon execution of the agreement.

On October 17, 2016, the Company announced that it has file a Clinical Trial Application (CTA) with Health Canada for its once-weekly transdermal aripiprazole patch. Upon approval of the CTA, the Company plans to initiate a repeat dose, 28-day safety and bioavailability study of aripiprazole transdermal patches in eight health volunteers in late 2016.

The Company granted 400,000 incentive stock options to a consultant in accordance to the Stock Option Plan. These stock options, with an effective date of November 3, 2016, are granted for a two-year term and an exercise price of $0.31 per common share. These options will vest 200,000 options on November 3, 2016 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operational activities during Q3 2016 were financed mainly by capital resources carried forward from the preceding year, through the January 2016 Financing, payments received for promotional services provided and the September 2016 financing. At September 30, 2016, Aequus had cash and cash equivalents of $1,192,256 and working capital of $1,050,762.

Although it is difficult to predict future liquidity requirements, management believes that the current working capital is not sufficient to implement its current business plan in the next twelve months. While the Company has started generating revenue, this early revenue stream would be insufficient to finance its working capital requirement. Management plans to raise additional capital through equity financing in the near term to finance its working capital requirements and product development of AQS-1301, AQS-1302 and AQS-1303. The Company's future cash requirements may vary materially from those expected now due to a number of factors, including commercial product revenue and costs associated with product development and strategic opportunities. As a result, it may be necessary to raise additional funds sooner than currently expected. These funds may come from sources such as entering into strategic collaboration arrangements, the issuance of shares from treasury, or alternative sources of financing. However, there can be no assurance that the Company will successfully raise funds to continue the development of AQS-1301, AQS-1302 and AQS-1303 and to market its commercial products.

Sources and Uses of Cash

	YTD 2016	YTD 2015
	$	$
Cash used in operating activities	(3,797,967)	(2,960,780)
Cash used in investing activities	(478,940)	(241,460)
Cash provided by financing activities	4,305,351	11,250
Net increase (decrease) in cash and cash equivalents	**28,444**	**(3,190,990)**

Cash used in operating activities was comprised of net loss, add-back of non-cash expenses, and net change in non-cash working capital items. Cash used in operating activities increased to $3,746,404 in YTD 2016 from $2,960,780 in YTD 2015. This increase of $785,624 was due to (i) a decrease of $10,834 in net loss adjusted with non-cash expenses and (ii) a negative net change of $796,458 in non-cash working capital which was primarily attributable to the payment of accounts payable items and an increase of accounts receivable.

Cash used in investing activities in YTD 2016 was related to the initial licensing fee of $478,940 (US$350,000) for the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. YTD 2015 investing activities related to the sale of property and equipment, the purchase of new property and equipment and acquisition of TeOra.

Cash provided by financing activities was $4,253,788 in YTD 2016. In YTD 2016, the Company completed two financings for gross proceeds of $5,392,631 less share issuance costs of $419,269. $719,575 of the gross proceeds were received and $51,563 of financing costs were paid during Q4 2016. In YTD 2015, cash received was related to exercises of stock options.

OUTSTANDING SHARE CAPITAL

As of November 29, 2016 there were no Class A Preferred shares without par value in the capital of the Company ("**Class A Preferred Shares**") issued and outstanding, 54,151,021 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	Number Outstanding as of November 29, 2016
Common Shares issued and outstanding	54,151,021
Class A Preferred Shares	Nil
Options[(1)]	4,725,337
Warrants[(2)]	510,390
Agents' Warrants[(3)]	Nil
Agents' Underlying Warrants[(3)]	Nil
Broker Warrants[(4)]	123,750

Notes:

(1) Subsequent to September 30, 2016, the Company issued 400,000 stock options on November 3, 2016 and forfeited 438,000 on October 22, 2016. Of the 4,725,337 options outstanding, 3,119,087 are vested and exercisable at a weighted average price of $0.40 per Common Share. The remaining 1,606,250 options are not vested and have a weighted average price of $0.46 per Common Share.

(2) All outstanding Common Share purchase warrants are exercisable into an equal number of Common Shares at a price of $0.75 per warrant. Subsequent to September 30, 2016, 3,809,383 warrants expired on November 20, 2016.

(3) Subsequent to September 30, 2016, 425,521 of Agents' Warrant expired on November 20, 2016.

(4) Each Broker Warrant entitles the holder to acquire one Common Share at a price of $0.50 per Common Share.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on its results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that is material to investors.

PROPOSED TRANSACTIONS

There are at present no transactions outstanding that have been proposed but not approved by either the Company or regulatory authorities.

RELATED PARTY TRANSACTIONS

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Six Months Ended September 30, 2016	Six Months Ended September 30, 2015
	$	$	$	$
Sub-contract research and licensing fees	124,989	86,333	401,900	245,898
Management fees	111,000	81,000	373,000	343,000
Consulting fees	105,973	106,600	298,622	268,072
	341,962	**273,933**	**1,073,522**	**856,970**

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:

[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, current directors of the Company. Pursuant to the terms of this research service contract which expired on December 31, 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 $401,900 and $245,898 during the nine months ended September 30, 2016 and 2015, respectively.

[ii] Effective September 1, 2014, the Company entered into a management services agreement with Northview Lifesciences, formerly Northview Ventures and Associates General Partners ("**Northview**"), controlled by Doug Janzen, and Anne Stevens (the "**Northview Agreement**"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Ms. Stevens is Secretary, Chief Operating Officer and director of the Company. Pursuant to the Northview Agreement, Mr. Janzen, Ms. 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. Effective February 1, 2016, the monthly rate is increased to $37,000. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development, sales and marketing, and general administration based on Mr. Janzen and Ms. Stevens' time involvement in the respective activities. During the nine months ended September 30, 2016, Northview charged total management fees of $373,000 including a bonus of $50,000 for completing a financing milestone. During the nine months ended September 30, 2015, Northview charged total management fees of $343,000 including a bonus of $60,000 and $40,000 for listing on the TSX-V and completing a multi-product collaboration deal with Corium, respectively.

As of September 30, 2016, the Company included in its accounts payable and accrued liabilities $54,394 (December 31, 2015 – $77,622) due to Northview.

[iii] On December 1, 2014, the Company entered into a consulting services agreement with KeenVision Consulting Inc. ("**KeenVision**") and Christina Yip (the "**KeenVision Agreement**"). Ms. Yip served as the Acting Chief Financial Officer of the Company. Pursuant to the KeenVision Agreement which was terminated following Ms. Yip's resignation on July 17, 2016. Ms. Yip and other personnel of KeenVision provided financial services normally assumed by the Chief Financial Officer and Controller of a publicly listed company. KeenVision was compensated at a monthly rate of $8,000 and was entitled to incentive bonuses upon the satisfaction of specified milestones. During the nine months ended September 30, 2016, KeenVision charged total consulting fees of $72,000 including two bonuses of $10,000 each for completing a financing milestone. During the nine months ended September 30, 2015, KeenVision charged total consulting fees of $99,500 including a bonus of $12,500 for listing on the TSX-V and $15,000 for filing a shelf prospectus.

As of September 30, 2016, the Company has included in its accounts payable and accrued liabilities $10,500 (December 31, 2015 – $25,200) due to KeenVision.

[iv] 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 nine months ended September 30, 2016, Mr. Ball charged total consulting fees of $108,000 (September 30, 2015 - $31,304).

As of September 30, 2016, the Company has included in its accounts payable and accrued liabilities $17,600 (December 31, 2015 – $15,041) due to Mr. Ball.

[v] 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 this consulting agreement with a term expiring on December 31, 2016, Dr. McAfee was compensated at a daily rate of US$1,000. During the nine months ended September 30, 2016, Dr. McAfee charged total consulting fees of $84,669 (September 30, 2015 – $137,268).

As of September 30, 2016, the Company has included in its accounts payable and accrued liabilities $3,596 (December 31, 2015 – $7,620) due to Dr. McAfee.

[vi] The Company entered into a consulting service agreement with Ann Fehr and Fehr & Associates. 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. Where a Controller is regularly on site, their rate is $70 per hour and any as needed bookkeeping will be charged at $50 per hour. Senior technical and tax work will be charged at $125 per hour.

During the nine months ended September 30, 2016, Mrs. Fehr charged total consulting fees of $51,400 (September 30, 2015 - $Nil)

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 September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Management fees, General & administration	83,250	48,600	292,250	205,800
Management fees, Research & development	27,750	32,400	80,750	137,200
Consulting fees, General & administration	60,553	70,304	143,753	130,804
Consulting fees, Research & development	22,020	36,296	84,669	137,268
Consulting fees, Sales & marketing	23,400	-	70,200	-
Share-based payments, General & administration	38,606	89,632	139,425	417,685
Share-based payments, Research & development	4,026	5,521	15,038	25,421
Share-based payments, Sales & marketing	3,884	-	15,243	-
	263,489	**282,753**	**841,328**	**1,054,178**

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New Standards Recently Adopted

The Company has adopted the following new accounting standards and interpretations effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions and had no impact on its Financial Statements.

IFRS 7 *Financial Instruments* – The amendment clarifies the applicability of the amendments to IFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* to condensed consolidated interim financial statements. This amendment is effective for reporting periods beginning on or after January 1, 2016.

IAS 34 *Interim Financial Reporting* – The amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' and requires a cross reference. This amendment is effective for reporting periods beginning on or after January 1, 2016.

IAS 16 and 38 *Property, Plant and Equipment and Intangible Assets (Amendment)* – These new standards provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. These standards are effective for annual periods beginning on or after January 1, 2016.

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* – 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, 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.

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.

FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments at September 30, 2016 and December 31, 2015 consist of the following:

	September 30, 2016 $	December 31, 2015 $
Financial assets		
Cash and cash equivalents	1,192,256	1,163,812
Amounts receivable	391,764	94,309
Financial Liabilities		
Accounts payable and accrued liabilities	706,105	1,145,077

The Company has designated its cash and cash equivalents as fair value through profit or loss, 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.

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.

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 or cashable guaranteed investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company had $Nil cashable GIC at September 30, 2016. Amounts receivable consist of primarily goods and services tax due from the Government of Canada and trade account receivable from a collaborative partner.

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 September 30, 2016, the Company had working capital $1,050,762 (December 31, 2015 – $239,863).

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 periods ended September 30, 2016 and 2015, 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 September 30, 2016 and December 31, 2015, the Company had the following assets and liabilities denominated in US dollars:

	September 30, 2016 US$	**December 31, 2015 US$**
Cash	24	384,841
Accounts payable and accrued liabilities	(153,884)	(375,748)
Total	**(153,860)**	**9,093**

Based on the above net exposure as at September 30, 2016 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 $7,693 in the Company's net loss and comprehensive loss (December 31, 2015 - $629).

ADDITIONAL INFORMATION

Additional information about the Company, including the Interim Financial Statements and the Annual Financial Statements, is available on SEDAR at www.sedar.com.