Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2016

(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 nine months ended September 30, 2016 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
(Expressed in Canadian dollars)

	Note	September 30, 2016 $ (unaudited)	December 31, 2015 $ (audited)
ASSETS			
Current			
Cash and cash equivalents		1,192,256	1,163,812
Amounts receivable		391,764	94,309
Prepaid expenses and deposit		172,847	75,256
Deferred financing costs	7[b][iii]	—	51,563
		1,756,867	**1,384,940**
Property and equipment		4,395	6,535
Intangible assets	5	1,114,899	763,151
Deferred share-based payments	6	112,624	275,112
		1,231,918	**1,044,798**
Total assets		**2,988,785**	**2,429,738**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	706,105	1,145,077
Total liabilities		**706,105**	**1,145,077**
SHAREHOLDERS' EQUITY			
Share capital	7	12,555,603	7,582,240
Common share subscriptions received	7[b][iii]	—	719,575
Contributed surplus		2,422,319	2,034,726
Deficit		(12,695,242)	(9,051,880)
Total shareholders' equity		**2,282,680**	**1,284,661**
Total liabilities and shareholders' equity		**2,988,785**	**2,429,738**

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

Going concern and uncertainty *[Note 1]*
Commitments and Contingencies *[Note 10]*
Subsequent Events *[Note 13]*

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on November 29, 2016 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Chris Clark
Director

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended September 30, 2016 $	Three Months Ended September 30, 2015 $	Nine Months Ended September 30, 2016 $	Nine Months Ended September 30, 2015 $
Revenue		300,549	—	534,732	—
Expenses					
Research and development	9[a]	371,824	704,073	832,665	1,689,931
Sales and marketing	9[b]	346,026	—	1,347,601	—
General administration	9[c]	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		**(1,120,575)**	**(1,413,194)**	**(3,675,734)**	**(3,681,499)**
Other income (loss)					
Interest income		1,117	—	3,139	—
Government grant		—	73,393	—	77,843
Income tax credit		31,501	—	31,501	—
Foreign exchange gain (loss)		(1,575)	(23,879)	(2,268)	(29,173)
		31,043	**49,514**	**32,372**	**48,670**
Net loss and comprehensive loss		**(1,089,532)**	**(1,363,680)**	**(3,643,362)**	**(3,632,829)**
Basic and diluted loss per common share		**(0.02)**	**(0.04)**	**(0.08)**	**(0.11)**
Weighted average number of common shares outstanding		**46,541,645**	**36,091,138**	**45,207,656**	**32,920,472**

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		Special Warrants		Subscriptions Received	Contributed Surplus	Deficit	Total
	Number	**$**	**Number**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2014	**25,975,347**	**2,029,127**	**8,044,301**	**3,599,524**	**-**	**1,333,221**	**(4,040,475)**	**2,921,397**
Deemed exercise of special warrants *[note 7[b][i]]*	7,618,780	3,599,524	(8,044,301)	(3,599,524)	-	-	-	**-**
Issued for cash pursuant to exercise of options	125,000	81,273	-	-	-	(37,524)	-	**43,749**
Issued for acquisition of intangible asset and services *[notes 5[a] and 6]*	3,360,000	1,002,120	-	-	-	-	-	**1,002,120**
Share-based compensation	-	-	-	-	-	570,776	-	**570,776**
Net loss for the period	-	-	-	-	-	-	(3,632,829)	**(3,632,829)**
Balance, September 30, 2015	**37,079,127**	**6,712,044**	**-**	**-**	**-**	**1,866,473**	**(7,673,304)**	**905,213**
Issued for cash pursuant to a public financing *[note 7[b][ii]]*	2,475,000	870,196	-	-	-	34,439	-	**904,635**
Subscriptions received	-	-	-	-	719,575	-	-	**719,575**
Share-based compensation	-	-	-	-	-	133,814	-	**133,814**
Net loss for the period	-	-	-	-	-	-	(1,378,576)	**(1,378,576)**
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 7[b][iii]]*	5,297,422	2,515,177	-	-	(719,575)	-	-	**1,795,602**
Issued for cash pursuant to a public financing *[note 7[b][iv]]*	9,146,400	2,458,186	-	-	-	-	-	**2,458,186**
Share-based compensation	-	-	-	-	-	387,593	-	**387,593**
Net loss for the period	-	-	-	-	-	-	(3,643,362)	**(3,643,362)**
Balance, September 30, 2016	**53,997,949**	**12,555,603**	**-**	**-**	**-**	**2,422,319**	**(12,695,242)**	**2,282,680**

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	Nine Months Ended September 30, 2016 $	Nine Months Ended September 30, 2015 $
OPERATING ACTIVITIES			
Net loss for the period		(3,643,362)	(3,632,829)
Add items not affecting cash:			
Depreciation of property and equipment		2,140	1,362
Loss from sale of fixed assets		—	919
Depreciation of intangible assets		127,192	33,918
Share-based payments	7[e]	550,081	621,847
		(2,963,949)	(2,974,783)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(297,455)	(20,164)
Prepaid expenses and other		(97,591)	(124,718)
Accounts payable and accrued liabilities		(438,972)	158,885
Cash used in operating activities		**(3,797,967)**	**(2,960,780)**
INVESTING ACTIVITIES			
Purchase of property and equipment		—	(5,210)
Proceeds from sale of property and equipment		—	1,015
Purchase of intangible assets	5	(478,940)	(237,265)
Cash used in investing activities		**(478,940)**	**(241,460)**
FINANCING ACTIVITIES			
Issuance of common shares, net of issuance costs	7[b]	4,305,351	11,250
Cash provided by financing activities		**4,305,351**	**11,250**
Increase (decrease) in cash and cash equivalents		**28,444**	**(3,190,990)**
Cash and cash equivalents, beginning of the period		1,163,812	3,576,071
Cash and cash equivalents, end of the period		**1,192,256**	**385,081**
Cash and cash equivalent consists of:			
Cash		1,192,256	84,681
Demand deposits		-	300,400
		1,192,256	**385,081**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Business Description

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.

Going Concern and Uncertainty

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 September 30, 2016, the Company has accumulated a deficit of $12,695,242 (December 31, 2015 – $9,051,880) and working capital of $1,050,762 (December 31, 2015 –$239,863). Although it is difficult to predict future liquidity requirements, management believes the Company expects to have sufficient working capital to fund its operations until the end of the first quarter of 2017. Given its current working capital, the Company may not be able to meet its financial obligations and sustain its operations in the normal course of business, all of which cast substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern depends on its ability to obtain additional equity financing and to generate operational cash flow from its newly 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**") *[Notes 5[a] and 6]*. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market PR Vistitan™, an ophthalmology product within Canada. On September 29, 2015, the Company further expanded this exclusive promotional right to include a transplant product called Tacrolimus IR, as well as potentially two additional branded generic transplant products from the same producer. 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, 2015, which have been prepared with International Financial Reporting Standards ("**IFRS**"). These Financial Statements were approved by the Company's Board of Directors on November 29, 2016.

[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.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Critical Judgments

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

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

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

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

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 current and next fiscal financial years:

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.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty (continued)

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate on the useful life of the intangible assets. The Company reviews its estimate of the useful life of depreciable assets at each reporting date.

iv. At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that the caring amount is not recoverable. 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.

v. Revenues are recognized based on a calculation of estimated profits using actual third party sales figures. Changes in estimates of revenues receivable 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, 2015, except for the following:

Revenue Recognition

The Company earns service revenues based on a proportion of a third party's net product sales. The Company recognizes service revenues when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Service revenue is recognized based on actual third party sales of products for the reporting period when collectability is certain. Service revenues recognized are estimated based on actual third party sales for the period net of estimated costs multiplied by the contractual proportionate allocation.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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 material 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.

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

New Standards Not Yet Effective (continued)

- **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.

5. 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 6]*, the Company issued 3,360,000 common shares of the Company valued at $1,002,120, repaid its liabilities of $154,817 with TeOra 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 7[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 6]*, 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. During the nine months ended September 30, 2016, the Company recorded amortization expense of $127,192 (2015 – $33,918).

[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.

(Unaudited - expressed in Canadian dollars)

5. INTANGIBLE ASSETS (CONTINUED)

As of September 30, 2016, 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, September 30, 2016	**847,945**	**478,940**	**1,326,885**
Accumulated amortization:			
Balance, December 31, 2015	84,794	—	84,794
Amortization of intangible assets	127,192	—	127,192
Balance, September 30, 2016	**211,986**	—	**211,986**
Net book value:			
As of December 31, 2015	763,151	—	763,151
As of September 30, 2016	**635,959**	**478,940**	**1,114,899**

6. 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 5[a]]*. Share-based payment for services of TeOra principals was recognized up front as a deferred asset and is expensed using the graded-vesting approach. During the nine months ended September 30, 2016, the Company recognized share-based payment expense of $162,488 (2015 – $51,071), respectively, related to the acquisition of TeOra. As of September 30, 2016, the net book value of the services acquired were as follows:

	Deferred share-based payments $
Cost:	
Balance, December 31, 2015 and September 30, 2016	**391,440**
Accumulated amortization:	
Balance, December 31, 2015	116,328
Amortization of deferred share-based payments	162,488
Balance, September 30, 2016	**278,816**
Net book value:	
As of December 31, 2015	275,112
As of September 30, 2016	**112,624**

(Unaudited - expressed in Canadian dollars)

7. 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 September 30, 2016, and December 31, 2015, there were no preferred shares issued and outstanding.

[b] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares without par value		
Issued and Outstanding		
Balance, December 31, 2014	**25,975,347**	**2,029,127**
Issued for deemed exercise of special warrants *[note 7[b][i]]*	7,618,780	3,599,524
Issued for cash pursuant to exercise of options	125,000	43,749
Issued for purchase of intangible assets and services *[notes 5[a] and 6]*	3,360,000	1,002,120
Balance, September 30, 2015	**37,079,127**	**6,712,044**
Issued for cash pursuant to a public financing *[note 7[b][ii]]*	2,475,000	870,196
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 7[b][iii]]*	5,297,422	2,515,177
Issued for cash pursuant to a public financing *[note 7[b][iv]]*	9,146,400	2,458,186
Balance, September 30, 2016	**53,997,949**	**12,555,602**

Held in Escrow Accounts	**Number of Shares**	**Percentage of Escrowed Shares**
*Pursuant to listing requirements of the TSX Venture Exchange (“**TSX-V**”)*		
Balance, December 31, 2014	**—**	**—**
Shares subject to escrow pursuant to the TSX-V regulations	20,387,125	100.00%
Release on the listing date of March 17, 2015	(2,038,712)	(10.00%)
Release on September 17, 2015	(3,058,069)	(15.00%)
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, September 30, 2016	**9,174,206**	**45.00%**

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

pursuant to the terms of the TeOra Acquisition		
Balance, December 31, 2014	**—**	**—**
Shares subject to escrow pursuant to the terms of the TeOra Acquisition	3,360,000	100.00%
Release on the closing of the TeOra Acquisition	(420,000)	(12.50%)
Balance, December 31, 2015	**2,940,000**	**87.50%**
Release on achieving performance milestones	(1,764,000)	**(52.50%)**
Balance, September 30, 2016	**1,176,000**	**35.00%**
Balance, December 31, 2015	**18,230,344**	
Balance, September 30, 2016	**10,350,206**	

As of September 30, 2016, the Company had 10,350,206 common shares, representing 19.2% of its issued and outstanding shares, held in escrow accounts.

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

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

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

7. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

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

ii. On October 30, 2015, the Company closed a public financing and issued 2,475,000 common shares at a price of $0.50 per share for total gross proceeds of $1,237,500 (the **"2015 Financing").** The public offering was made through Richardson GMP Limited. In connection to this financing, the Company issued 123,750 broker warrants valued at $34,439, paid broker commissions and corporate finance fees of $92,813 and $25,000, respectively, and reimbursed $83,786 of legal expenses. The Company also incurred $131,266 of professional fees and other related financing costs to this financing.

iii. 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. Of these issuance costs, $51,563 were incurred and recorded as deferred financing costs at December 31, 2015.

iv. 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.

(Unaudited - expressed in Canadian dollars)

7. 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, 2014	**510,390**	**0.75**
Issued	3,809,388	0.75
Balance, December 31, 2015, and September 30, 2016	**4,319,778**	**0.75**

Date of Expiry	Number	Exercise Price $
November 20, 2016 [i]	3,809,388	0.75
December 17, 2016	487,663	0.75
December 23, 2016	22,727	0.75
	4,319,778	**0.75**

[i] Subsequent to September 30, 2016, the warrants expired unexercised.

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

Agents' special warrants and broker's warrant transactions and the number of warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2014	—	—
Issued in connection with the Offering *[note 7[b][i]]*	425,521 [i]	0.55
Issued in connection with the 2015 Financing *[note 7[b][ii]]*	123,750 [ii]	0.50
Balance, December 31, 2015, and September 30, 2016	**549,271**	**0.54**

[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.

[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.

(Unaudited - expressed in Canadian dollars)

7. 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 as of September 21, 2016. 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 nine months ended September 30, 2016 and 2015, the Company recorded share-based payments of $550,081 and $570,776, respectively. The following weighted-average assumptions were used to estimate the fair values of share options granted during the nine months ended September 30, 2016 and 2015.

	2016	**2015**
Risk-free interest rate	0.62%	1.29%
Estimated annualized volatility based on comparable companies	86.49%	103.16%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	0.45	$0.55
Fair value	0.36	$0.49
Share price	0.45	$0.56

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

	Number	**Weighted Average Exercise Price** $
Balance, December 31, 2014	**2,597,337**	**0.35**
Exercised	(125,000)	0.35
Cancelled, expired or forfeited	(230,000)	0.35
Granted	1,695,000	0.55
Balance, December 31, 2015	3,937,337	0.44
Cancelled, expired or forfeited	(224,000)	0.55
Granted	1,050,000	0.45
Balance, September 30, 2016	**4,763,337**	**0.44**

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
May 31, 2020	$0.25	1,124,337	1,124,337
December 12, 2021	$0.35	565,000	423,750
December 1, 2022	$0.55	203,000	139,750
December 18, 2022	$0.55	350,000	262,500
March 6, 2023	$0.55	750,000	591,250
July 9, 2023	$0.57	300,000	225,000
September 30, 2023	$0.55	421,000	268,500
April 21, 2024	$0.47	900,000	275,000
July 22, 2024	$0.35	150,000	37,500
Balance, September 30, 2016	**$0.44**	**4,613,337**	**3,347,587**

As of September 30, 2016, the weighted average remaining life for outstanding options was 5.94 years (December 31, 2015 – 6.3 years)

8. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

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

[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

8. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

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 provide 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 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.

8. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

[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 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. 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)

(Unaudited - expressed in Canadian dollars)

8. RELATED PARTY DISCLOSURE (CONTINUED)

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, 2016 $	Three Months Ended September 30, 2015 $	Nine Months Ended September 30, 2016 $	Nine Months Ended September 30, 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**

9. OPERATING EXPENSES

[a] Research and development expenses

	Three Months Ended September 30, 2016 $	Three Months Ended September 30, 2015 $	Nine Months Ended September 30, 2016 $	Nine Months Ended September 30, 2015 $
Consulting and management fees *[note 8[a]]*	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 *[note 8[a][i]and [note 10[b]]*	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**

(Unaudited - expressed in Canadian dollars)

9. OPERATING EXPENSES (CONTINUED)

[b] Sales and marketing expenses

	Three Months Ended September 30, 2016 $	Three Months Ended September 30, 2015 $	Nine Months Ended September 30, 2016 $	Nine Months Ended, September 30, 2015 $
Advertising and promotion	58,708	—	129,849	—
Consulting and management fees *[note 8[a]]*	90,483	—	317,667	—
Depreciation and amortization	42,398	—	127,192	—
Printing and other 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**	**—**

[c] General administration expenses

	Three Months Ended September 30, 2016 $	Three Months Ended September 30, 2015 $	Nine Months Ended September 30, 2016 $	Nine Months Ended September 30, 2015 $
Consulting and management fees *[note 8[a]]*	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**

10. COMMITMENTS AND CONTINGENCIES

[a] Operating lease

On April 9, 2015, the Company entered into a sublease agreement for its new Vancouver head office premise expiring on November 30, 2018, and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay basic rent of $8,893 and operating rent, currently estimated at $6,655, on a monthly basis starting September 1, 2015. The company has entered into sublease agreements of the space providing monthly rental revenue of $8,600 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 nine months ended September 30, 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) (September 30, 2015 - $528,633 (US$424,059)).

[c] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 5[b]]*, 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 September 30, 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. CAPITAL DISCLOSURES

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

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the period ended September 30, 2016.

12. 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. There are no level 2 or 3 financial instruments.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash on deposits and amounts receivable. The Company has adopted practices to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits or cashable guaranteed investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company had a $NIL cashable GIC at September 30, 2016 (December 31, 2016 - $300,400). Amounts receivable consist of primarily goods and services tax ("**GST**") due from the Government of Canada and trade account receivable from a collaborative partner.

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

[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 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 U.S. 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).

13. SUBSEQUENT EVENTS

[a] The Company entered into a service agreement with Camargo Pharmaceutical Services, LLC ("Camargo") to provide end-to-end regulatory consulting services for the Company development programs. Under the terms of this agreement, Camargo will be compensated with a split of cash and common shares. 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.

[b] 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.