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

As of April 28, 2016

For the year ended December 31, 2015

*This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the year ended December 31, 2015 and is performed by management using information available as of April 28, 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 audited financial statements for the year ended December 31, 2015 and the related notes thereto ("**Annual Financial Statements**"). The Company's 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:

- *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;*
- *our ability to obtain funding for our operations, including funding for research and commercial activities;*
- *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 ability to promote and market third party products and the anticipated timing thereof, including our ability to successfully market tacrolimus IR and Vistitan™ 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 Vistitan™;*

- *our estimates of the size of the potential markets for tacrolimus IR, Vistitan™, Topiramate XR, Oxcarbazepine XR and our internal 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 2015 Annual Information Form ("**2015 AIF**") to be filed on SEDAR (www.sedar.com) on April 29, 2016. 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.

All references to dollars ($) in this MD&A are expressed in Canadian funds, unless otherwise indicated.

OVERVIEW OF THE COMPANY

Aequus is a specialty pharmaceutical company primarily focused on developing and commercializing high quality and differentiated products. Aequus' development stage pipeline includes several products in neurology and psychiatry with a goal of addressing the need for improved medication adherence through enhanced delivery systems. Aequus intends to commercialize its internally developed products in Canada, and establish strategic partnerships to accelerate product development and maximize market reach of its product candidates for markets outside of Canada. Through its acquisition of TeOra Health Ltd. **("TeOra")** in July 2015, Aequus now has access to a Canadian commercial platform to build on for launching products that are either created internally or brought in through an acquisition or license.

Corporate Developments During the Fiscal Year Ended December 31, 2015

On February 19, 2015, the Company received the final receipt for its Long Form Prospectus and became a reporting issuer in Alberta, British Columbia, Manitoba and Ontario.

On March 17, 2015, the Company's Common Shares began trading on the TSX-V under the symbol "AQS".

On April 28, 2015, the Company and Corium International, Inc., a commercial-stage biopharmaceutical company focused on the development, manufacture and commercialization of specialty transdermal products, entered into a collaboration agreement (the "**Multi-product Collaboration Agreement**"), under which the parties may co-fund new transdermal products with an initial focus on neurological disorders. Under the terms of the Multi-product Collaboration Agreement, for each product selected for development the parties will assign an allocation of responsibilities, costs, rights and product revenues. Additional product development programs under the Multi-product Collaboration Agreement will primarily be focused on neurological disorders in which current treatments are limited by high-frequency dosing, side effects or painful injections, all of which potentially increase the risk of non-compliance.

On July 13, 2015, Anne Stevens was promoted to Chief Operating Officer of Aequus.

On July 28, 2015, the Company acquired all of the issued and outstanding shares of TeOra Health Ltd., a privately held Canadian specialty pharmaceutical company (the "**TeOra Acquisition**"). The TeOra Acquisition provided the Company with sales and marketing capabilities, and a right to promote and market a branded generic ophthalmology product within Canada. Total consideration for the TeOra Acquisition was 420,000 Common Shares which were issued to TeOra shareholders upon closing, and an additional 2,940,000 Common Shares which will be held in escrow and released based on the achievement of certain milestones and performance targets and additional product launches. If all milestones are met, total consideration for the TeOra Acquisition will be the issuance of 3,360,000 Common Shares to TeOra shareholders. Ian Ball, the founder of TeOra, was appointed as Chief Commercial Officer of the Company effective on July 28, 2015.

On August 27, 2015, the Company's outstanding Common Shares have started trading on the OTCQB® Venture Marketplace exchange in the United States under the symbol "AQSZF".

On September 29, 2015, the Company entered into a binding term sheet (the "**Term Sheet**") with an unnamed partner in Canada to be its exclusive promotion and marketing partner in the Canadian market for Tacrolimus IR, an immunosuppressive therapy used for the treatment and prevention of acute rejection following organ transplantation, and potentially in connection with two additional transplant products. The parties subsequently negotiated and entered into a definitive promotional service agreement dated December 1, 2015 (the "**PSA**").

On October 30, 2015, the Company closed an offering of 2,475,000 Common Shares at a price of $0.50 per Common Share, for aggregate gross proceeds of $1,237,500 pursuant to the terms of an agency agreement (the "**GMP Agency Agreement**") dated October 21, 2015 between the Company and Richardson GMP Limited ("**GMP**"). 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.

On November 16, 2015, the Company initiated a Phase 1 proof of concept ("**POC**") trial to evaluate the bioavailability and safety of its lead product development program, AQS-1301. The Company completed dosing for the POC trial on December 14, 2015 and the results of which were announced on February 4, 2016.

On December 2, 2015, the Company initiated sales and marketing efforts in the Canadian market for Tacrolimus IR. Aequus had deployed its specialty hospital sales force targeting major transplant centers across Canada.

Corporate Developments Subsequent to December 31, 2015

On January 12, 2016, the company closed a non-brokered private placement in the United States of 1,797,422 Common Shares and the non-brokered public offering in Canada of 3,500,000 Common Shares at a price of C$0.50 per Common Share for aggregate gross proceeds of approximately C$2.65 million (the "**January 2016 Financing**").

On February 4, 2016, the Company announced the results of its POC trial for AQS-1301. This initial clinical study was conducted in a single trial site in Canada and dosing was completed in late December 2015. The study was designed as a double-blinded, single-dose, randomized, placebo-controlled, seven-day safety and bioavailability study, enrolling 12 healthy volunteers. The primary objective of the study was to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation. The results of the study suggest that sustained, seven-day delivery of therapeutic doses of aripiprazole may be possible with the current formulation. The formulation was tolerated with no serious adverse events reported and minimal skin irritation seen at the application site.

On February 12, 2016, the Company entered into a licensing agreement (the "**Supernus Agreement**") for the Canadian commercial rights to topiramate extended-release ("**Topiramate XR**") tablets (marketed as Trokendi XR® in the U.S.) and oxcarbazepine extended-release ("**Oxcarbazepine XR**") tablets (marketed as Oxtellar XR® in the U.S.) with Supernus Pharmaceuticals, Inc. ("**Supernus**"), a U.S.-based specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system disorders. Both products are branded, once-daily, medications for the treatment of epilepsy, and have been successfully marketed by Supernus in the U.S. since 2013.

On April 28, 2016, the Company announced that it has initiated commercial activities for PR Vistitan™ (bimatoprost 0.03%, ophthalmic solution) in the Canadian market, which is a prostaglandin approved as a treatment for the reduction of elevated intraocular pressure ("**IOP**") in patients with open angle glaucoma or ocular hypertension.

Aequus' Business Strategy

Aequus has evolved from a development stage company to a revenue-generating, fully integrated specialty pharmaceutical company. Since the TeOra Acquisition in 2015, Aequus has built a solid commercial foundation in Canada with a growing portfolio of marketed products and late-stage assets. Aequus' sales force has been promoting a first-to-market specialty generic product, tacrolimus IR, since December of 2015, which may provide transplant patients in Canada with a cost-effective alternative to their lifelong medication. A second product is expected to be promoted in the second quarter of 2016 through this same sales channel in ophthalmology.

In an effort to leverage Aequus' existing development pipeline (which includes a long-acting transdermal application of the anti-epilepic medication, clobazam) Aequus in-licensed two long-acting, extended release epilepsy medications, namely Topiramate XR, once-daily tablets and Oxcarbazepine XR, once-daily tablets, marketed as Trokendi XR® and Oxtellar XR® in the U.S., respectively. These two products, if approved in Canada, have the potential to present a sizeable market opportunity, given the need for once-daily medications in Canada for seizure control. Both products are expected to be submitted to Health Canada for regulatory review in the second half of 2016.

Over the next 24 months, Aequus expects to continue on this growth trajectory by making investments aimed at expanding and improving the efficiency of its sales channel in Canada by continuing to build its commercial franchise through a combination of in-licensing and acquisitions of high-quality, differentiated products in hospital specialty areas. The Company is in discussions for additional commercial rights within Canada, and plans to expand its product portfolio to include life-cycle patented brands and branded generic products within specialty therapeutic areas.

Currently, Aequus has two preclinical stage programs and one clinical stage program in development in various central nervous system ("**CNS**") indications to address the large unmet medical need and market opportunity for products with enhanced delivery systems aimed at improving compliance in areas such as Bipolar Disorder I, Schizophrenia and Epilepsy. Aequus intends to continue to advance the development of its internal product pipeline through Phase 1 clinical studies and will look to establish strategic partnerships for late stage product development, from Phase 2 registration studies through commercial launch in certain territories. This allows Aequus to leverage its partners' infrastructure and established networks necessary for accelerated product development and wider market reach in other regions worldwide.

Aequus' Commercial Pipeline

The TeOra Acquisition provided the Company with sales and marketing capabilities, and a right to promote and market a branded generic ophthalmology product within Canada. Aequus is building on this commercial platform to launch products that are either created internally or brought in through an acquisition, partnership or in-licensing.

On September 29, 2015, the Company entered into the Term Sheet which provides Aequus an exclusive right to promote and market tacrolimus IR, a branded generic transplant product and a potential for two additional branded generic transplant products from the same producer who granted the ophthalmology product to TeOra. Aequus will receive revenues based on agreed upon percentages of net sales. The Company further expanded its commercial pipeline by obtaining the Canadian commercial rights to

Trokendi XR® and Oxtellar XR® through the Supernus Agreement signed on February 12, 2016. Both products are branded, once-daily, extended-release products for the treatment of epilepsy.

TACROLIMUS IR

The first commercial product promoted by Aequus' salesforce is tacrolimus immediate releaser ("**IR**"), an immunosuppressive therapy used for the treatment and prevention of acute rejection following organ transplantation. Immunosuppressive therapy is prescribed to patients as part of their overall lifelong management to prevent graft rejection.

The immunosuppressive market in Canada is estimated to be over $300 million, of which, tacrolimus products account for approximately 30% of the market. Transplant therapeutics is a unique space due to the complexity and sensitivity of therapy. Aequus will be promoting the only currently approved branded generic form of tacrolimus IR, which has demonstrated bioequivalence to Prograf in the largest clinical dataset of any generic worldwide with over 280,000 patient years studied. This product was initially approved by Health Canada in November 2013 and has been significantly underperforming since launch compared to its adoption in other markets. Aequus believes that with promotional support and by creating an awareness with physicians around the robust clinical package supporting the transition of patients to this particular generic form, a sizeable market can be accomplished. Aequus initiated its promotional activities for tacrolimus IR in December 2015 and has since been awarded three major hospital tenders in the two largest provinces in Canada, which will allow patients to more readily access this product in those areas. Under the terms of the agreement, Aequus receives a tiered revenue split on incremental sales of the product, with revenues beginning in the first quarter of 2016.

PR VISTITAN™
(bimatoprost 0.03%, ophthalmic solution)

The second product promoted by Aequus' salesforce is a branded generic ophthalmology product, Vistitan™ (bimatoprost 0.03%, ophthalmic solution), obtained through the TeOra Acquisition. Commercial activities commenced for this product in April, 2016. 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 2014 was estimated to be over $137 million, of which prostaglandins remain one of the primary treatment options for lowering IOP in glaucoma. Bimatoprost 0.03% has a differentiated and improved efficacy profile over other currently available prostaglandins.

Bimatoprost is a synthetic prostamide analogue and is structurally related to prostaglandin F2α. Its mechanism of action resembles that of prostaglandin F2α, a naturally occurring substance. Vistitan™, which was approved by Health Canada in 2014, is currently the only marketed version of 0.03% bimatoprost ophthalmic solution indicated for the reduction of elevated intraocular pressure in patients with open angle glaucoma or ocular hypertension. Bimatoprost 0.03% has been studied in two randomized, multicenter, double-blinded, parallel-group clinical studies, of 12 months duration, conducted on 1198 patients with glaucoma or ocular hypertension, versus timolol twice-daily as an active control. Over the 12 month study duration bimatoprost predictability lowered IOP in over 90% of patients to 22mgHg or less, with approximately 50% of patients having IOPs of 17mmHg or less. Additionally, in a meta-analysis published by CADTH in 2015, bimatoprost 0.03% was demonstrated to be superior or equivalent to other prostaglandins in reducing IOP.

In a Phase 2 dose-response study conducted by Allergan, which included 60 patients with twice-daily dosing for 5±2 days showed significant reductions from baseline IOP with bimatoprost 0.01% and 0.03% formulations as well as with timolol 0.5%, compared to vehicle. Among the bimatoprost concentrations evaluated, 0.03% had the best ratio of safety to efficacy.

The effects of 0.003%, 0.01% and 0.03% bimatoprost (non-preservative formulations) and of twice-daily versus once-daily (evening) dosing were compared to timolol 0.5% and vehicle in 100 patients treated for one month. Although 0.01% and 0.03% had similar safety profiles, 0.03% had significantly better efficacy. There was no significant difference in efficacy between twice-daily and once-daily dosing.

Under the terms of the PSA, Aequus will split revenues of this product with its partner in a tiered structure.

TOPIRAMATE EXTENDED-RELEASE and OXCARBAZEPINE EXTENDED-RELEASE
(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 with Supernus, whereby the Company acquired the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. Both products are branded, once-daily, extended-release products for the treatment of epilepsy, 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 plans to use Supernus' data packages to compile an application for regulatory approval with Health Canada in the second half of 2016 for both products.

If approved, these products are expected to be the first-to-market, extended release, once-daily forms of topiramate and oxcarbazepine available to patients in Canada. These products are different from the currently available immediate release forms by offering convenient once-daily dosing and unique pharmacokinetic profiles that can have positive clinical effects for some patients with epilepsy. The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Trokendi XR® and Oxtellar 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.

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

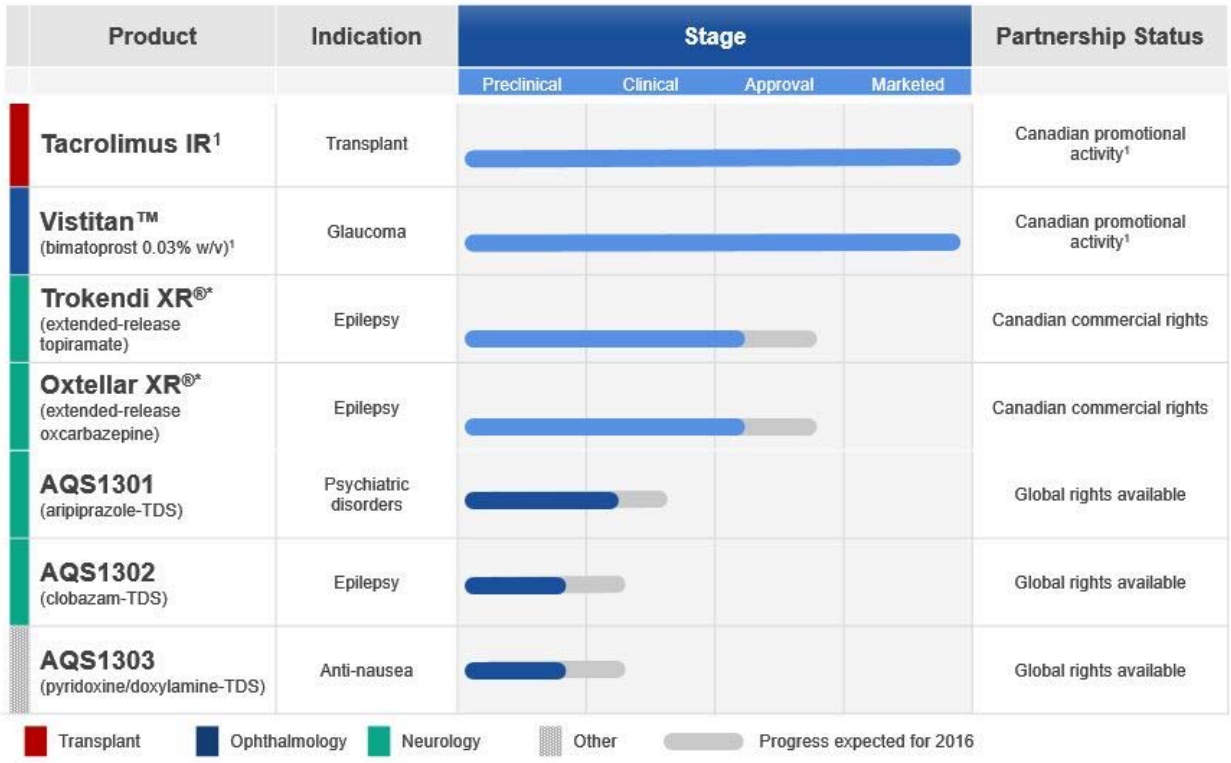
Topiramate XR is a once-daily topiramate product designed to improve patient compliance and to show a better pharmacokinetic profile than the currently available immediate release products, which must be taken multiple times per day. The currently approved immediate release form of topiramate in Canada 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.

Table 1 – Development Timeline



Aequus' Product Development Pipeline

Aequus' lead development stage product candidate, AQS-1301, is expected to be a once-weekly transdermal formulation of aripiprazole. The oral, once-daily formulation of aripiprazole is currently marketed under the trade name Abilify™ for the treatment of bipolar I disorder, schizophrenia, irritability associated with autistic disorder, and major depressive disorder. Abilify™, a unique atypical antipsychotic, is a market leader in the U.S. and Aequus believes it has limitations due to its daily dosing regimen which is associated with a high rate of non-adherence, which may result in relapse. Aequus' proposed once-weekly transdermal aripiprazole patch 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, AQS-1301 is intended to promote enhanced patient adherence.

In addition to AQS-1301, Aequus is developing a pipeline of other CNS product candidates that specifically benefit from the various attributes that transdermal and other long-acting delivery systems can provide. Please refer to "*Table 1 – Development Timeline*" above for an overview of the current status of AQS-1301, AQS-1302 and AQS-1303.

Preclinical and Clinical Development

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 according to a Section 505(b)(2) New Drug Application ("**NDA**") with the FDA. Thus, the development timelines and costs associated with the studies required to be conducted by Aequus for approval of a transdermal formulation of aripiprazole under the Section 505(b)(2) regulatory pathway in the U.S. (and equivalent approval pathways in other jurisdictions) could be less than what is required for a new chemical entity.

Aequus has completed in-vitro skin flux, skin irritation and porcine pharmacokinetic pre-clinical studies to determine the optimal formulation for AQS-1301 as a once-weekly, transdermal aripiprazole patch. The Company has also completed a non-IND POC trial enrolling healthy volunteers to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation, and plans to conduct a follow-on POC multi-dose study in July 2016 to determine the unit flux and the level and constancy of blood levels over a seven day period and provide guidance for the appropriate patch sizes (dosages) for clinical and commercial use. Under the terms of the Multi-product Collaboration Agreement, Corium has an option to co-fund up to 50% of the clinical program following review of the Canadian non-IND Phase 1 POC clinical trial results and in return, Corium would participate in a higher level of the economics of the sales or licensing revenues accordingly.

Non-IND Phase 1 Proof of Concept and Phase 1 Bioequivalence Study

Aequus, along with its key advisors, designed and filed a clinical trial application ("**CTA**") for a two stage IND Phase 1 Proof of Concept (POC) study to determine the pharmacokinetic profile of AQS-1301 in healthy human subjects. On November 10, 2015, Aequus received a No Objection Letter from Health Canada for the first stage of this study and initiated dosing healthy volunteers in December 2015. The study was designed as a double-blinded, single-dose, randomized, placebo-controlled, seven-day safety and bioavailability study, enrolling 12 healthy volunteers. The primary objective of this first stage of the POC study was to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation. The results from this study were announced on February 4, 2016. The results suggest that sustained, seven-day delivery of therapeutic doses of aripiprazole may be possible with the current formulation. The formulation was tolerated with no serious adverse events reported and minimal skin irritation seen at the application site.

The Company plans to conduct the follow-on, second stage of the POC study to determine the unit flux and the level and constancy of blood levels over a seven day period and provide guidance for the appropriate patch sizes (dosages) for clinical and commercial use. This study should be completed within 3 months from initiation. Following completion of the follow-on POC study, patches with the specifications derived from both POC studies will be manufactured and a clinical trial site will be established in the U.S. or Canada to conduct a study suitable to support a NDA 505(b)(2) submission. Aequus expects to engage a clinical Contract Research Organization to complete the design and conduct of these trials.

Following the POC study, Aequus expects to file an IND with the FDA for a Phase 1 Bioequivalence study, which is currently expected to enroll approximately 30 healthy subjects. We anticipate subjects will be

exposed to a single dose of AQS-1301 to determine the bioequivalence of our target product profile over a seven-day period. This Phase 1 Bioequivalence study is not expected to take more than three months to complete from initiation.

Phase 2 Registration Study

In order to obtain regulatory approval, the Company will be required to carry out at least one Registration study with at least several hundred patients. The target patient population will be dependent on the advice of our clinical advisors and the results from the POC and Bioequivalence Phase 1 studies. For the Phase 2 Registration study, we anticipate patients will be exposed to AQS-1301 over a 28-day period. This study is expected to take approximately one year to complete. Aequus intends to have a third party development collaborator or commercialization partner engaged prior to initiating this study to support the funding requirements of this study.

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 to advance AQS-1301 through the Phase 2 Registration study. In the next two years, Aequus also plans to accelerate its second internal program, AQS-1302, through formulation development; and conduct exploratory research on AQS-1303 primarily for patent application purposes. AQS-1302 is designed to be a once-daily, and up to a once-weekly transdermal clobazam patch; while AQS-1303 is intended to be once-daily / once-weekly transdermal doxylamine/pyridoxine patch.

The following table summarizes Aequus' current development plan for its product pipeline for the next two years.

Table 2 – Planned Development Timeline

Program	Development Milestone	2016				2017			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AQS-1301	Phase 1 POC and follow-on studies Phase 1 Bioequivalence Phase 2 Registration preparation Registration Study (1)								
AQS-1302	Formulation development Formulation optimization Manufacturing IND enable studies and IND Phase 1 POC and follow-on studies Phase 1 Bioequivalence								
AQS-1303	Patent conversions & applications Formulation development Formulation optimization Manufacturing IND enable studies and IND								

Notes:
(1) Anticipate funding through partnership or licensing arrangement.

The Company's product development progress is contingent upon a number of factors. See the heading "*Risk Factors*" in the Company's 2015 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.

Steps to Reach Commercial Production

In order for AQS-1301, AQS-1302 and AQS-1303 to reach commercial production in the U.S., the Company anticipates the following development steps. With respect to AQS-1301, (i) formulation optimization (completed); (ii) a POC study (completed); (iii) a follow-on POC study (in preparation stage), (iv) a Phase 1 Bioequivalence study; (v) registration study; and (vi) a regulatory application with the FDA for commercial approval in the U.S., will be required. The Company anticipates achieving commercial production of AQS-1301 in the second half of 2018 with a total development cost of approximately $26 million. Of this amount, approximately $1.9 million has been incurred at December 31, 2015. The Company expects to invest $1.2 million to advance AQS-1301 through a Phase 1 Bioequivalence study; and work with a collaborative development partner to advance the product from Phase 2 registration study onward.

With respect to AQS-1302, (i) formulation optimization and preclinical animal studies (in progress); (ii) a Phase 1 POC and follow-on studies; (iii) a Phase 1 Bioequivalence study; (iv) a registration study; and (v) a regulatory application with the FDA for commercial approval in the U.S., will be required. The Company anticipates achieving commercial production of AQS-1302 in Q2 2019 at a cost of approximately $26 million. Of this amount, approximately $0.3 million has been incurred at December 31, 2015. The

Company expects to invest $1.7 million to advance AQS-1302 through a Phase 1 Bioequivalence study; and transfer late stage development from Phase 2 registration study onward to a potential collaborative partner.

With respect to AQS-1303, (i) a formulation optimization and preclinical animal studies (in progress); (ii) a Phase 1 POC and follow-on studies; (iii) a Phase 1 Bioequivalence study; (iv) a registration study; and (v) a regulatory application with the FDA for commercial approval in the U.S., will be required. The Company anticipates achieving commercial production of AQS-1303 in the second half of 2019 at a cost of approximately $26 million. The Company expects to invest $1.4 million to advance AQS-1303 through a Phase 1 Bioequivalence study; and transfer late stage development from Phase 2 registration study onward to a potential collaborative partner.

OVERALL PERFORMANCE

Since its inception in January 2013, Aequus has accumulated a deficit of $9,051,880 as at December 31, 2015. While the Company did not generate any revenue from product sales as at the end of 2015, the Company expects to start generating revenue from its commercial platform in early 2016, but near term profitability is not expected until Aequus licenses or partners out its internally developed product candidates. Aequus expects its operating losses to continue in the next fiscal year as it builds its commercial platform and invests in its product development, with primary focus for the next two years on 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.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected financial information for the fiscal year ended December 31, 2015 ("**Fiscal 2015"**), comparable fiscal year ended December 31, 2014 ("**Fiscal 2014**"), and fiscal period from January 3, 2013 (date of inception) to December 31, 2013 ("**Fiscal 2013**"). The selected financial information set out below has been derived from the Annual Financial Statements and accompanying notes, in each case prepared in accordance with IFRS. The Annual Financial Statements have been audited by Aequus' auditors, Crowe MacKay LLP. The selected financial information set out below may not be indicative of the Company's future performance. The following discussion should be read in conjunction with the Annual Financial Statements.

	Fiscal 2015	**Fiscal 2014**	**Fiscal 2013**
	$	**$**	**$**
Total revenue	—	—	—
Net loss for the fiscal period	(5,011,405)	(2,411,199)	(1,629,276)
Loss per share, basic and fully diluted	(0.15)	(0.10)	(0.08)
Total assets	2,429,738	3,665,904	337,331
Total non-current financial liabilities	—	—	—
Cash dividends declared per Common Share	—	—	—

Revenues

Aequus did not generate any revenue from product sales in Fiscal 2015. Through the acquisition of TeOra and the signing of the PSA, Aequus has secured the rights to promote four products, including Tacrolimus IR and an undisclosed ophthalmology product in Canada. The Company expects to start generating revenue from Tacrolimus IR and the ophthalmology product in the fiscal year ending December 31, 2016 ("**Fiscal 2016**"). Aequus does not expect any revenues from its internal products in development until they are licensed out or until collaborative partnerships are formed for these product candidates.

Discussion of Operations

Aequus recorded a net loss of $5,011,405 ($0.15 per Common Share) in Fiscal 2015 and $2,411,199 ($0.10 per Common Share) in Fiscal 2014. The increase in net loss was primarily due to higher operating expenditures as the Company built its corporate infrastructure and expanded its operations necessary to advance the development of AQS-1301 and AQS-1302. The Company achieved a number of corporate milestones in Fiscal 2015 as detailed earlier in this MD&A (see "*Corporate Developments During the Fiscal Year Ended December 31, 2015"*). These milestones include listing of the Company's Common Shares on the TSX-V and the OTCQB, completion of the Multi-product Collaboration Agreement and the TeOra Acquisition, closing a public financing in October 2015, and the product development advancement of AQS-1301 and AQS-1302.

Specifically, the increased loss of $2,600,206 between the two fiscal periods was due to an increase of $1,103,064 in research and development expenses, an increase of $555,177 in sales and marketing expenses, an increase of $919,589 in general administration expenses, and a decrease of $22,376 in other income. The following table provides an overview of the financial results in Fiscal 2015 as compared to those in Fiscal 2014:

	Fiscal 2015 **$**	**Fiscal 2014** **$**
Research and development expenses	2,144,488	1,041,424
Sales and marketing expenses	555,177	—
General administration expenses	2,355,485	1,435,896
Total operating expenses and loss before other income	(5,055,150)	(2,477,320)
Other income	43,745	66,121
Net loss	**(5,011,405)**	**(2,411,199)**

Research and Development Expenses

Aequus incurred total research and development expenses of $2,144,488 in Fiscal 2015 as compared to $1,041,424 in Fiscal 2014. The increase in research and development expenses by $1,103,064 was primarily due to an increase of $929,725 in subcontract development costs. Professional and consulting fees, and patent and intellectual property protection expenses also contributed to the increased research and development expenses by $159,494 and $74,326, respectively. The increase in subcontract development costs was due to the advancement of ASQ-1301 into clinical trial. The clinical development work, together with technology transfer, formulation optimization and prototype development of AQS-1301 completed by TRPL and Corium, contributed to the increased subcontract development costs. These compared to pre-clinical development work conducted at one single location, at TRPL, in the preceding year.

Professional and consulting fees increased due to the hiring of regulatory consultants and scientific consultants to prepare clinical trial application for AQS-1301 and manage the expanded development activities of AQS-1301, AQS-1302 and AQS-1303. The increase in patent costs for the year was related to

the Company's patent conversions from the Patent Cooperation Treaty ("**PCT**") stage to issued patents in different regions.

The following table summarizes the Company's research and development expenditures in Fiscal 2015 and Fiscal 2014:

	Fiscal 2015	**Fiscal 2014**
	$	**$**
Patent and intellectual property protection	104,629	30,303
Professional and consulting fees	380,970	221,476
Share-based payments	54,705	113,682
Subcontract research costs	340,428	359,520
Subcontract development costs	1,219,539	289,814
Travel and accommodation	44,217	26,629
	2,144,488	**1,041,424**

Sales and Marketing Expenses

Aequus incurred sales and marketing expenses of $555,177 in connection with its newly acquired commercial division through the TeOra Acquisition in Fiscal 2015. The majority of the expenditures were (i) consulting and management fees of $152,870 paid to sales and marketing consultants including a new Chief Commercial Officer (CCO) and Vice President, Marketing, (ii) subcontract salesforce expenditures of $103,804, as well as (iii) $139,796 and $84,794 in share-based payments, and depreciation and amortization, respectively. The commercial activities in Fiscal 2015 were primarily related to the preparation of the Tacrolimus IR launch in Canada, as well as negotiation and finalization of the PSA.

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 payment to TeOra principals joining Aequus as CCO and Vice President, Marketing, are deferred and expensed using the graded vesting approach.

The following table summarizes the Company's sales and marketing expenditures in Fiscal 2015:

	Fiscal 2015	**Fiscal 2014**
	$	**$**
Advertising and promotion	35,806	—
Consulting and management fees	152,870	—
Depreciation and amortization	84,794	—
Printing and other expenses	20,039	—
Share-based payments	139,796	—
Subcontract salesforce	103,804	—
Travel and accommodation	18,068	—
	555,177	**—**

General Administration Expenses

General administration expenses were $2,355,485 in Fiscal 2015 as compared to $1,435,896 in Fiscal 2014. The increase of $919,589 in general administration expenses was primarily due to the Company's expanded business operations and the completion of corporate development transactions. Specifically, the variance of $919,589 was attributable to a $676,176 increase in personnel related expenses and a $210,276 increase in business development related costs. Other administration overhead also rose by $33,137.

Personnel related expenses included consulting and management fees, salaries and benefits, and share-based payments which increased by $318,156, $113,589 and $244,431 in Fiscal 2015, respectively, as compared to those in Fiscal 2014. Aequus added new personnel to support its expanded operations resulting in higher personnel costs and granted Management performance bonuses linked to business development and corporate finance milestones as detailed in the Related Party Transaction section in this MD&A.

Business development related costs included advertising and promotion, as well as travel and accommodation which were higher by $118,472 and $91,804 in Fiscal 2015, respectively, as compared to those in Fiscal 2014. These expenses were primarily related to the attendance of trade shows and financial conferences, corporate communication, business development and investor relations.

Other administration overhead comprised office related expenses, public listing related expenditures, as well as legal and professional fees. These expenses increased by $33,137 in Fiscal 2015, as compared to those in Fiscal 2014. Specifically, office related expenses increased by $68,964, public listing related costs rose by $31,517, and legal and professional fees declined by $67,344.

Included in the office related expenditures were amortization of office furniture and equipment, and office and other expenses, which increased by $485 and $68,479, respectively. The Company added new office furniture and moved into a bigger office facility in Fiscal 2015 to support its expanded operations.

The Company secured its TSX-V and OTCQB listings in March and August 2015, respectively. Public listing related costs were comprised of initial listing expenses, and regulatory and transfer agent fees. Listing expenses declined by $17,116 because the Company started its TSX-V listing process and incurred a substantial amount of the costs in Fiscal 2014. Regulatory and transfer agent fees considered as public listing maintenance costs, rose by $48,633 since actual listings happened in Fiscal 2015. The Company only incurred regulatory fees for its initial application of TSX-V listing; there was no transfer agent fee in Fiscal 2014.

Legal and professional fees vary depending on the timing of business transactions and corporate development activities. These expenditures declined in Fiscal 2015 because the Company was able to handle some of the business contract work internally with an expanded team in-house. The Company started its negotiation for the Multi-product Collaboration Agreement and incurred a substantial amount of the costs in Fiscal 2014. Legal and professional fees associated with the TeOra Acquisition were capitalized.

The following table summarizes the Company's general administration expenditures in Fiscal 2015 and Fiscal 2014:

	Fiscal 2015	Fiscal 2014
	$	$
Advertising and promotion	155,634	37,162
Consulting and management fees	616,813	298,657
Depreciation and amortization	1,984	1,499
Legal and professional fees	259,900	327,244
Listing expenses	223,367	240,483
Office and other expenses	180,844	112,365
Regulatory and transfer agent fees	70,473	21,840
Salaries and benefits	113,589	—
Share-based payments	626,417	381,986
Travel and accommodation	106,464	14,660
	2,355,485	**1,435,896**

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			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	("Q4 2015") $	("Q3 2015") $	("Q2 2015") $	("Q1 2015") $
Revenue	—	—	—	—
Research and development expenditures	454,557	704,073	606,272	379,586
Sales and marketing expenditures	555,177	—	—	—
General administration expenditures	363,918	709,121	548,315	734,131
Other income (loss)	(4,925)	49,514	11,667	(12,511)
Net loss for the period	(1,378,577)	(1,363,680)	(1,142,920)	(1,126,228)
Basic and diluted loss per common share	(0.04)	(0.04)	(0.03)	(0.04)

	Quarter Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	("Q4 2014") $	("Q3 2014") $	("Q2 2014") $	("Q1 2014") $
Revenue	—	—	—	—
Research and development expenditures	437,985	304,803	185,878	112,758
General administration expenditures	925,418	163,009	194,164	153,305
Other income	13,677	32,023	13,992	6,429
Net loss for the period	(1,349,726)	(435,789)	(366,050)	(259,634)
Basic and diluted loss per common share	(0.05)	(0.02)	(0.02)	(0.01)

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

- In general, research and development expenditures trended upwards as Aequus advanced its product development of AQS-1301, AQS-1302 and AQS-1303. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) formulation assessment work of AQS-1301 at Corium which started and completed in Q3 2014 and Q4 2014, respectively; (ii) formulation optimization and prototype development work of AQS-1301 at Corium which began in Q1 2015 and completed in Q3 2015; (iii) clinical product manufacturing of AQS-1301 in Q3 2015; and (iv) clinical study of AQS-1301 which started in Q3 2015.

- In general, general administration expenses also trended upwards as the Company added personnel and built its corporate infrastructure to support its expanded operations. These expenditures fluctuated more significantly in certain quarters due to the costs associated with the OTCQB Listing in Q3 2015, the negotiation of the Multi-product Collaboration Agreement which closed in Q2 2015, and the TSX-V Listing in Q1 2015.

- Other income was primarily derived from the receipt of various government incentives including research grants, new graduate employment grants and refundable research tax credits. These positive variances were offset by foreign exchange losses from transactions requiring U.S. dollar settlement and translation into U.S. dollar denominated accounts due to the strengthened U.S. dollar against the Canadian dollar.

Fourth Quarter

Aequus recorded a net loss of $1,378,577 ($0.04 per Common Share) in Q4 2015 as compared to $1,349,726 ($0.05 per Common Share) in Q4 2014. The increase of $28,851 in net loss was attributable to a $16,572 increase in research and development expenditures, a $555,177 increase in sales and marketing expenses, and a $561,500 decrease in general administration expenses.

Research and development expenditures increased slightly to $454,557 in Q4 2015 from $437,985 in Q4 2014 due primarily to the advancement of AQS-1301. The Company incurred higher subcontract development costs but lower subcontract research costs as AQS-1301 progressed from pre-clinical stage to clinical stage. Patent related costs were higher as Aequus continued to execute its patent conversion from the PCT stage into regional issued patents. Share-based payments were lower since there was no new option granted to scientific personnel in Q4 2015. The following table provides a detailed breakdown of Aequus's research and development expenditures in Q4 2015, as compared to those in Q4 2014:

	Q4 2015	**Q4 2014**
	$	**$**
Patent and intellectual property protection	28,746	6,847
Professional and consulting fees	67,744	86,923
Share-based payments	(344)	68,560
Subcontract research costs	86,026	125,900
Subcontract development costs	265,131	132,826
Travel and accommodation	7,254	16,929
	454,557	437,985

The Company has formally established a new commercial division in Q4 2015 following the acquisition of TeOra in July 2015. Certain sales and marketing expenditures incurred Q3 2015 have been reclassified from general administration expenses in Q4 2015. Total sales and marketing expenditures of $555,177 were associated with the preparation of Tacrolimus IR launch in Canada, as well as negotiation and finalization of the PSA. The following table provides a detailed breakdown of Aequus's sales and marketing expenditures in Q4 2015:

	Q4 2015 $	Q4 2014 $
Advertising and promotion	35,806	—
Consulting and management fees	152,870	—
Depreciation and amortization	84,794	—
Subcontract salesforce	103,804	—
Printing costs and other sales expenses	20,039	—
Share-based payments	139,796	—
Travel and accommodation	18,068	—
	555,177	**—**

General administration expenditures decreased in Q4 2015 to $363,918 from $925,418 in Q4 2014 due primarily to certain non-recurring activities. Aequus was in the midst of its application for a new TSX-V listing and negotiation of the Multi-product Collaboration Agreement in Q4 2014. These activities resulted in higher listing expenses and legal and professional fees in Q4 2014. The Company also recruited new directors and officers in Q4 2014 as part of its going public preparation; this resulted in higher share-based payments in Q4 2014. Certain sales and marketing expenditures including amortization and share-based payments associated with the TeOra Acquisition in Q3 2015 had been retroactively segregated from general administration expenses following the establishment of the commercial division in Q4 2015. The following table provides a detailed breakdown of Aequus's general administration expenditures in Q4 2015, as compared to those in Q4 2014:

	Q4 2015 $	Q4 2014 $
Advertising and promotion	90,780	22,284
Consulting and management fees	95,509	117,826
Depreciation and amortization	(33,296)	375
Legal and professional fees	35,094	161,880
Listing expenses	—	240,483
Office and other expenses	56,752	25,975
Regulatory and transfer agent fees	9,262	21,840
Salaries and benefits	35,780	—
Share-based payments	59,619	329,696
Travel and accommodation	14,418	5,059
	363,918	**925,418**

LIQUIDITY AND CAPITAL RESOURCES

The Company's operational activities during Fiscal 2015 were financed mainly by capital resources carried forward from the preceding year, and through a public financing in October 2015. At December 31, 2015, the Company's cash and cash equivalents decreased to $1,163,812 from $3,576,071 at December 31, 2014. Working capital at December 31, 2015 was $239,863, as compared to $2,916,154 at December 31, 2014. The decrease in the Company's cash and working capital was due to lower equity financing raised during Fiscal 2015. Subsequent to December 31, 2015, the Company completed the January 2016 Financing for aggregate gross proceeds of approximately $2.65 million.

Although it is difficult to predict future liquidity requirements, management believes that the current working capital, in addition to the January 2016 Financing, will fund the Company's operations until the second quarter of 2016. While the Company has started generating revenue in the first quarter of 2016, this early revenue stream would be insufficient to finance its working capital requirement for the next twelve months. Management plans to raise additional capital through equity financing in the near term to finance its working capital requirements and clinical development of AQS-1301 and AQS-1302. 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 and AQS-1302 and to market its commercial products.

Sources and Uses of Cash

	Fiscal 2015	Fiscal 2014
	$	$
Cash used in operating activities	(3,838,757)	(1,364,877)
Cash used in investing activities	(241,461)	—
Cash provided by financing activities	1,667,959	4,629,216
Net (decrease) increase in cash and cash equivalents	(2,412,259)	3,264,339

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 $3,838,757 in Fiscal 2015 from $1,364,877 in Fiscal 2014. This increase was primarily due to (i) an increase in net loss by $2,600,206 as a result of the Company's expanded operations; and (ii) a negative net change of $285,123 in non-cash working capital which was primarily attributable to the payment of accounts payable items. These negative variances were offset by the increased add-backs of non-cash expenses of $411,449, which was mainly due to the increased recognition of share-based payments in Fiscal 2015, as compared to those in Fiscal 2014.

Cash used in investing activities in Fiscal 2015 was primarily related to the TeOra Acquisition and leasehold improvements at the Company's new office facility. No cash was used in investing activities in Fiscal 2014.

Cash provided by financing activities declined by $2,961,257 in Fiscal 2015 as compared to the amount reported in Fiscal 2014. This was due to the fact that no cash was received in Fiscal 2015 as compared to Fiscal 2014 related to the exercise of common share purchase warrants that were made in Fiscal 2014. The decrease in cash from financing activities was partly offset by an increase in advanced subscriptions received related to the January 2016 Financing.

On January 12, 2016, the Company closed a non-brokered private placement in the U.S. 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 Common Share for aggregate gross proceeds of $2,648,711. As of December 31, 2015, the Company had incurred $51,563 of professional fees and other expenses in connection to these financings and recorded these financing expenses as deferred financing costs.

OUTSTANDING SHARE CAPITAL

As of April 28, 2016, there were no Class A Preferred shares without par value in the capital of the Company ("**Class A Preferred Shares**") issued and outstanding, 44,851,549 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	Number Outstanding as of April 28, 2016
Common Shares issued and outstanding	44,851,549
Class A Preferred Shares	Nil
Options[(1)]	4,613,337
Warrants[(2)]	4,319,778
Agents' Warrants[(3)]	425,521
Agents' Underlying Warrants[(3)]	212,760
Broker Warrants[(4)]	123,750

Notes:

(1) Of the 4,613,337 options outstanding, 3,202,587 are vested and exercisable at a weighted average price of $0.41 per Common Share. The remaining 1,410,750 options are not vested and have a weighted average price of $0.50 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.

(3) Each Agents' Warrant entitles the holder to acquire one Common Share and one-half of one Agents' Underlying Warrant at a price of $0.55 per Agents' Warrant, subject to certain conditions. Each Agents' Underlying Warrant is exercisable into one Common Shares at a price of $0.75 per Agents' Underlying Warrant.

(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.

RELATED PARTY TRANSACTIONS

[a] Transactions with related parties

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

	Fiscal 2015 $	Fiscal 2014 $
Subcontract research and licensing fees	331,924	348,561
Management fees	424,000	238,000
Consulting fees	354,417	92,500
	1,110,341	**679,061**

a) Effective September 1, 2014, the Company entered into a management services agreement with Northview Ventures and Associates General Partners ("**Northview**"), Doug Janzen, and Anne Stevens (the "**Northview Agreement**"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Ms. Stevens is Secretary and Chief Operating Officer. 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. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development and general administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. During Fiscal 2015, Northview charged total management fees of $424,000 including bonuses of $40,000 and $60,000 for completing a multi-product collaboration deal with Corium and listing on the TSX-V, respectively. During Fiscal 2014, Northview charged total management fees of $158,000 including a bonus of $50,000 for completing a financing milestone.

   As of December 31, 2015, the Company included in its accounts payable and accrued liabilities $77,622 (December 31, 2014 – $28,350) due to Northview.

b) Prior to September 1, 2014, the Company had a consultancy arrangement with Mr. Janzen for his management services at a monthly rate of $10,000. This arrangement was replaced by the Northview Agreement on September 1, 2014. Mr. Janzen charged the Company managements fees of $80,000 during Fiscal 2014.

c) Consulting fees include fees paid to other officers and directors detailed as follows:

   i. 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 is the Chief Financial Officer of the Company. Pursuant to the KeenVision Agreement with a term expiring on November 30, 2016, Ms. Yip and other personnel of KeenVision provide financial services normally assumed by the Chief Financial Officer of a publicly listed company. KeenVision is compensated at a monthly rate of $8,000 and is entitled to incentive bonuses upon the satisfaction of specified milestones. During Fiscal 2015, KeenVision received total consulting fees of $123,500 including bonuses of $12,500 and $15,000 for listing on the TSX-V and filing a shelf prospectus, respectively. During Fiscal 2014, KeenVision received total consulting fees of $8,000 and Ms. Yip received a $12,500 bonus for completing a financing milestone.

      As of December 31, 2015, the Company has included in its accounts payable and accrued liabilities $25,200 (December 31, 2014 – $8,400) due to KeenVision.

   ii. 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, 2015, Dr. McAfee was compensated at a daily rate of US$1,000. The Company is in discussion with Dr. McAfee to extend his consulting contract. During Fiscal 2015, Dr. McAfee charged total consulting fees of $163,613.

As of December 31, 2015, the Company has included in its accounts payable and accrued liabilities $7,620 (December 31, 2014 – $33,778) due to Dr. McAfee.

iii. 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 Fiscal 2015, Mr. Ball charged total consulting fees of $67,304.

As of December 31, 2015, the Company has included in its accounts payable and accrued liabilities $15,041 (December 31, 2014 – $Nil) due to Mr. Ball.

iv. The Company has included $9,240 (December 31, 2014 – $33,778) in its accounts payable and accrued liabilities due to officers of the Company for business expense reimbursements.

v. The Company entered into a financial consulting service agreement with two former directors, Peter Wilson and K. Charlie Perperidis, at a monthly rate of $4,000 each. Mr. Wilson and Mr. Perperidis each charged the company $36,000 during Fiscal 2014. They ceased to be directors of the Company in October 2014.

d) On July 30, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), entered into a licensing agreement. TRPL is controlled by Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis, the current directors of the Company. Pursuant to the licensing agreement, and subsequent amendments dated June 1, 2014 and March 11, 2015, the Company has obtained an exclusive worldwide right to a novel transdermal formulation of aripiprazole for all uses. The Company paid TRPL $310,790 of licensing fees and other associated costs and fulfilled all of its obligations under the licensing agreement in 2013.

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

The Company incurred subcontract research and licensing fees of $331,924 and $348,561 during Fiscal 2015 and Fiscal 2014, respectively. As of December 31, 2015, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2014 – $57,363) due to TRPL.

[b] Key management compensation

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

	Fiscal 2015	**Fiscal 2014**
	$	**$**
Management fees	424,000	238,000
Consulting fees	354,417	92,500
Share-based payments	642,275	425,434
	1,420,692	**755,934**

PROPOSED TRANSACTIONS

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

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New Standards Recently Adopted

The following is an overview of new accounting standards that the Company adopted effective January 1, 2015:

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

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

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

New Standards Not Yet Effective

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

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

- **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.

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

FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments at December 31, 2015 and 2014 consist of the following:

	December 31, 2015 $	December 31, 2014 $
Financial assets		
Cash and cash equivalents	1,163,812	3,576,071
Amounts receivable	94,309	75,340
Financial Liabilities		
Accounts payable and accrued liabilities	1,145,077	744,507

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.

[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 $350,497 cashable GIC at December 31, 2015. Amounts receivable consist of primarily goods and services tax due from the Government of Canada and recoverable from related parties.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2015, the Company had working capital of $239,863 (December 31, 2014 – $2,916,154).

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the period ended December 31, 2015 and 2014, fluctuations in the market interest rates had no significant impact on its interest income.

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in 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 December 31, 2015 and 2014, the Company had the following assets and liabilities denominated in U.S. dollars:

	December 31, 2015 US$	**December 31, 2014 US$**
Cash	384,841	195,585
Accounts payable and accrued liabilities	(375,748)	(202,342)
Total	**9,093**	**(6,757)**

Based on the above net exposure as at December 31, 2015, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of $629 (December 31, 2014 – $339) in the Company's net loss and comprehensive loss.

ADDITIONAL INFORMATION

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