

# **Aequus Pharmaceuticals Inc.**

## **Consolidated Financial Statements**

For the years ended December 31, 2015 and 2014



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## **Independent Auditor's Report**

### **To the Shareholders of Aequus Pharmaceuticals Inc.**

We have audited the accompanying consolidated financial statements of Aequus Pharmaceuticals Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Consolidated Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aequus Pharmaceuticals Inc. and its subsidiary as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### **Emphasis of matter**

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Aequus Pharmaceuticals Inc. to continue as a going concern.

**"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, British Columbia  
April 28, 2016**

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

	Note	December 31, 2015 \$	December 31, 2014 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		1,163,812	3,576,071
Amounts receivable		94,309	75,340
Prepaid expenses and other		75,256	9,250
Deferred financing costs	15[a]	51,563	—
		<b>1,384,940</b>	<b>3,660,661</b>
Property and equipment	5	6,535	5,243
Intangible assets	7	763,151	—
Deferred share-based payments	7	275,112	—
		<b>1,044,798</b>	<b>5,243</b>
<b>Total assets</b>		<b>2,429,738</b>	<b>3,665,904</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	8	1,145,077	744,507
<b>Total liabilities</b>		<b>1,145,077</b>	<b>744,507</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital			
Issued and outstanding:			
Common shares	6[b]	7,582,240	2,029,127
Special warrants	6[b]	—	3,599,524
Common share subscriptions received	15[a]	719,575	—
Contributed surplus		2,034,726	1,333,221
Deficit		(9,051,880)	(4,040,475)
<b>Total shareholders' equity</b>		<b>1,284,661</b>	<b>2,921,397</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,429,738</b>	<b>3,665,904</b>

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

Going Concern [Note 1]

Commitments and Contingencies [Note 9]

Subsequent Events [Note 15]

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2016 and signed on its behalf by:

/s/ Douglas G. Janzen  
Director

/s/ Chris Clark  
Director

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

	Note	Year Ended December 31,	
		2015	2014
		\$	\$
<b>Expenses</b>			
Research and development	11[a]	2,144,488	1,041,424
Sales and marketing	11[b]	555,177	—
General administration	11[c]	2,355,485	1,435,896
		<u>5,055,150</u>	<u>2,477,320</u>
Loss before other income		<b>(5,055,150)</b>	<b>(2,477,320)</b>
<b>Other income (loss)</b>			
Government grant and tax credits		84,141	45,000
Foreign exchange gain (loss) and other		(40,396)	21,121
		<u>43,745</u>	<u>66,121</u>
<b>Net loss and comprehensive loss</b>		<b>(5,011,405)</b>	<b>(2,411,199)</b>
<b>Basic and diluted loss per common share</b>		<b>0.15</b>	<b>0.10</b>
<b>Weighted average number of common shares</b>		<b>34,395,872</b>	<b>25,012,844</b>

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

# Aequus Pharmaceuticals Inc.

## Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Common Shares		Special Warrants		Subscriptions Received	Contributed Surplus	Deficit	Total
	Number	\$	Number	\$	\$	\$	\$	\$
<b>Balance, December 31, 2013</b>	<b>24,367,606</b>	<b>1,195,281</b>	—	—	—	<b>714,590</b>	<b>(1,629,276)</b>	<b>280,595</b>
Issued for cash pursuant to exercise of warrants	586,961	322,828	—	—	—	—	—	322,828
Issued for cash pursuant to private placements <i>[note 6[b][i],[ii] and [iii]]</i>	1,020,780	511,018	8,044,301	3,599,524	—	122,963	—	4,233,505
Share-based payments	—	—	—	—	—	495,668	—	495,668
Net loss for the year	—	—	—	—	—	—	(2,411,199)	(2,411,199)
<b>Balance, December 31, 2014</b>	<b>25,975,347</b>	<b>2,029,127</b>	<b>8,044,301</b>	<b>3,599,524</b>	—	<b>1,333,221</b>	<b>(4,040,475)</b>	<b>2,921,397</b>
Deemed exercise of special warrants <i>[note 6[b][iii]]</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 cash pursuant to private placements <i>[note 6[b][iv]]</i>	2,475,000	870,196	—	—	—	34,439	—	904,635
Issued for acquisition of intangible asset and services <i>[note 7]</i>	3,360,000	1,002,120	—	—	—	—	—	1,002,120
Subscription received for ongoing financing <i>[note 15[a]]</i>	—	—	—	—	719,575	—	—	719,575
Share-based payments	—	—	—	—	—	704,590	—	704,590
Net loss for the year	—	—	—	—	—	—	(5,011,405)	(5,011,405)
<b>Balance, December 31, 2015</b>	<b>39,554,127</b>	<b>7,582,240</b>	—	—	<b>719,575</b>	<b>2,034,726</b>	<b>(9,051,880)</b>	<b>1,284,661</b>

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

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

	Note	Year Ended December 31,	
		2015	2014
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		(5,011,405)	(2,411,199)
Add items not affecting cash:			
Depreciation and amortization		86,778	1,499
Loss from sale of property and equipment		920	—
Share-based payments	6[e] and 7	820,918	495,668
		(4,102,789)	(1,914,032)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(18,969)	(66,744)
Prepaid expenses and other		(66,006)	1,011
Accounts payable and accrued liabilities		349,007	614,888
<b>Cash used in operating activities</b>		<b>(3,838,757)</b>	<b>(1,364,877)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(5,211)	—
Purchase of intangible asset and services	7	(237,265)	—
Proceeds from sale of property and equipment		1,015	—
<b>Cash used in investing activities</b>		<b>(241,461)</b>	<b>—</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares, net of issuance costs	6[b]	948,384	833,846
Issuance of special warrants, net of issuance costs	6[b]	—	3,795,370
Subscriptions received	15[a]	719,575	—
<b>Cash provided by financing activities</b>		<b>1,667,959</b>	<b>4,629,216</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(2,412,259)</b>	<b>3,264,339</b>
<b>Cash and cash equivalents, beginning of the year</b>		<b>3,576,071</b>	<b>311,732</b>
<b>Cash and cash equivalents, end of the year</b>		<b>1,163,812</b>	<b>3,576,071</b>
<b>Cash and cash equivalent consists of:</b>			
Cash		813,315	2,063,092
Demand deposits		350,497	1,512,979
		<b>1,163,812</b>	<b>3,576,071</b>
<b>Non-cash investing and financing activities:</b>			
Deferred financing cost included in accounts payable and accrued liabilities		(51,563)	(72,883)
Common shares issued to acquire intangible assets and services	7	(1,002,120)	—
Fair values of options exercised		37,524	—
Fair values of securities issued as financing compensation		(34,439)	(122,963)

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

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
For the years ended December 31, 2015 and 2014  
(Expressed in Canadian dollars)

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**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 consolidated 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 December 31, 2015, the Company has accumulated a deficit of \$9,051,880 (December 31, 2014 - \$4,040,475) and working capital of \$239,863 (December 31, 2014 - \$2,916,154). Subsequent to the year end, the Company completed two financings for an aggregate gross proceeds of \$2,648,711 [note 15[a]]. Of these gross proceeds, \$719,575 was received prior to the year-end and was included in cash and cash equivalent and working capital at year-end at December 31, 2015. Although it is difficult to predict future liquidity requirements, management believes the Company has working capital to finance its operations until second quarter of 2016. 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 significant 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**”) [note 7]. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market a branded generic ophthalmology product within Canada. On September 30, 2015, the Company further expanded this exclusive promotional right to include a branded generic 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 expects to start generating revenue from these branded products in 2016. The Company’s longer term business strategy for internal operation cash flow is to successfully develop its product pipeline for partnering revenue or commercialization profits.

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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**2. BASIS OF PRESENTATION**

**[a] Statement of compliance**

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) effective for the year ended December 31, 2015.

These Financial Statements were approved by the Company’s Board of Directors on April 28, 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.

***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.



**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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**2. BASIS OF PRESENTATION (CONTINUED)**

**[d] Significant accounting estimates and judgments (continued)**

*Critical Judgments (continued)*

- ii. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.
- iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

*Estimation Uncertainty*

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

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.
- iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate on the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount on intangible 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.

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**[a] Consolidation**

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

**[b] Financial instruments**

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

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

**[c] Cash and cash equivalents**

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

**[d] Property and equipment**

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

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

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[e] Intangible assets**

Intangible assets consist of contractual rights to commercialize, market and promote certain pharmaceutical products. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following its initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over the useful economic life of five years and assessed for indicators of impairment at the end of each reporting period. The amortization period is reviewed at least annually.

**[f] Impairment of assets**

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

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

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

**[g] Research and development costs**

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

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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(Expressed in Canadian dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[h] Share-based payments**

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

**[i] Income taxes**

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

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

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

**[j] Investment tax credit**

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

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[k] Government assistances**

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

**[l] Loss per common share**

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

**[m] Equity and share capital**

Share capital represents the value of shares that have been issued. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. The Company may issue units consisting of common shares and common share purchase warrants. The Company estimates the fair value of the common shares based on their market price on the announcement date. The residual difference, if any, between the unit price and the fair value of each common share represents the fair value attributable to each warrant.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

**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.

**Aequus Pharmaceuticals Inc.**  
**Notes to Consolidated Financial Statements**  
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(Expressed in Canadian dollars)

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**4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

**New Standards Not Yet Effective**

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

- **IFRS 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 on or after January 1, 2018.
- **IFRS 16 *Leases*** - This standard was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.
- **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.

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**5. PROPERTY AND EQUIPMENT**

	<b>Office Furniture and Equipment \$</b>	<b>Leasehold Improvement \$</b>	<b>Total \$</b>
<b>Office Furniture and Equipment</b>			
<b>Cost:</b>			
<b>Balance, December 31, 2013 and 2014</b>	<b>7,491</b>	<b>—</b>	<b>7,491</b>
Addition	1,000	4,211	5,211
Disposition	(2,977)	—	(2,977)
<b>Balance, December 31, 2015</b>	<b>5,514</b>	<b>4,211</b>	<b>9,725</b>
<b>Accumulated depreciation:</b>			
<b>Balance, December 31, 2013</b>	749	—	749
Depreciation	1,499	—	1,499
<b>Balance, December 31, 2014</b>	<b>2,248</b>	<b>—</b>	<b>2,248</b>
Depreciation	1,002	982	1,984
Disposition	(1,042)	—	(1,042)
<b>Balance, December 31, 2015</b>	<b>2,208</b>	<b>982</b>	<b>3,190</b>
<b>Net book value:</b>			
<b>As of December 31, 2014</b>	<b>5,243</b>	<b>—</b>	<b>5,243</b>
<b>As of December 31, 2015</b>	<b>3,306</b>	<b>3,229</b>	<b>6,535</b>

**6. 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 December 31, 2015 and 2014, there were no preferred shares issued and outstanding.

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**6. SHARE CAPITAL (CONTINUED)**

**[b] Common shares**

	Number of Shares	Amount \$
<b>Authorized</b>		
Unlimited number of common shares without par value		
<b>Issued and Outstanding</b>		
<b>Balance, December 31, 2013</b>	<b>24,367,606</b>	<b>1,195,281</b>
Issued for cash pursuant to exercise of warrants	586,961	322,828
Issued for cash pursuant to a private placement [note 6 [b][i]]	415,780	192,270
Issued for cash pursuant to a private placement [note 6 [b][ii]]	605,000	318,748
<b>Balance, December 31, 2014</b>	<b>25,975,347</b>	<b>2,029,127</b>
Issued for deemed exercise of special warrants [note 6 [b][iii]]	7,618,780	3,599,524
Issued for cash pursuant to exercise of options	125,000	81,273
Issued for purchase of intangible assets [note 7]	3,360,000	1,002,120
Issued for cash pursuant to a public financing [note 6 [b][iv]]	2,475,000	870,196
<b>Balance, December 31, 2015</b>	<b>39,554,127</b>	<b>7,582,240</b>

	Number of Shares	Percentage of Escrowed Shares
<b>Held in Escrow Accounts</b>		
<i>(i) Pursuant to listing requirements of the TSX Venture Exchange</i>		
<b>Balance, December 31, 2013 and 2014</b>	—	
Shares subject to escrow in accordance to regulations of the TSX Venture Exchange		
	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%)
<b>Balance, December 31, 2015</b>	<b>15,290,344</b>	<b>75.00%</b>
<i>(ii) Pursuant to the terms of the TeOra Acquisition</i>		
<b>Balance, December 31, 2013 and 2014</b>	—	
Shares subject to escrow in terms of the TeOra acquisition		
	3,360,000	100.00%
Release on the closing date on July 28, 2015	(420,000)	(12.50%)
<b>Balance, December 31, 2015</b>	<b>2,940,000</b>	<b>87.50%</b>
<b>Balance, December 31, 2015</b>	<b>18,230,344</b>	

As of December 31, 2015, the Company had 18,230,344 common shares, representing 46.09% of its issued and outstanding shares, held in escrow accounts.



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**6. SHARE CAPITAL (CONTINUED)**

**[b] Common shares (continued)**

- [i] On July 11, 2014, the Company closed a private placement of common shares. The Company issued 415,780 common shares at a price of \$0.55 per common share for total gross proceeds of \$228,680. The Company incurred \$36,410 in other share issuance costs. The Company subsequently entered into amending agreements with the investors of this financing and issued 207,890 common share purchase warrants to the investors. Each such warrant is exercisable to acquire one common share in the capital of the Company at an exercise price of \$0.75 per warrant for a period of 24 months following the date of issuance of such warrant, subject to adjustment in certain circumstances and the Company's right to accelerate the exercise period of such warrants upon meeting certain conditions.
- [ii] On December 17, 2014, the Company issued an aggregate of 605,000 units at a price of \$0.55 per unit for aggregate gross proceeds of \$332,750. Each unit consists of one common share and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant is exercisable into one common share of the Company at \$0.75 per such warrant until December 17, 2016. The Company has a right to accelerate the exercise period of such warrants upon meeting certain conditions.

This is a follow-on financing to the Offering as defined herein [Note 6[b][iii]]. As such, the Company has allocated a pro-rata share of the professional fees and other related financing costs in connection to the Offering to this financing. The Company incurred \$14,002 in issuance costs which are comprised of \$1,485 cash commissions and \$12,517 of professional fees and other related financing costs.

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**6. SHARE CAPITAL (CONTINUED)**

**[b] Common shares (continued)**

- [iii] 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.

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.

- [iv] 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.

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**6. SHARE CAPITAL (CONTINUED)**

**[c] Common share purchase warrants**

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

	Number	Weighted Average Exercise Price \$
<b>Balance, December 31, 2013</b>	<b>2,680,856</b>	<b>0.65</b>
Exercised	(586,961)	0.65
Expired	(2,093,895)	0.65
Issued	510,390	0.75
<b>Balance, December 31, 2014</b>	<b>510,390</b>	<b>0.75</b>
Issued	3,809,388	0.75
<b>Balance, December 31, 2015</b>	<b>4,319,778</b>	<b>0.75</b>

  

	Number	Exercise Price \$
<b>Date of Expiry</b>		
November 20, 2016	3,809,383	0.75
December 17, 2016	487,663	0.75
December 23, 2016	22,727	0.75
	<b>4,319,778</b>	<b>0.75</b>

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

In connection with the Offering and the 2015 Financing, the Company issued 425,521 Agents' Warrants and 123,750 broker warrants, respectively:

	Number	Weighted Average Exercise Price \$
<b>Balance, December 31, 2013 and 2014</b>	—	—
Issued in connection with the Offering <i>[note 6 [b][iii]]</i>	425,521 <sup>[i]</sup>	0.55
Issued in connection with the 2015 Financing <i>[note 6 [b][iii]]</i>	123,750 <sup>[ii]</sup>	0.50
<b>Balance, December 31, 2015</b>	<b>549,271</b>	<b>0.54</b>

[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.

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**6. 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 August 10, 2015, the Company further amended its Stock Option Plan (the “Amended and Restated Stock Option Plan”).

The maximum number of common shares issuable under the Stock Option Plan was an aggregate of 10% of the issued and outstanding common shares, calculated as at the award date of the options. The maximum number of common shares issuable was restated to 5,039,119 common shares under the Amended and Restated Stock Option Plan. Under both plans, the maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the fiscal years ended December 31, 2015 and 2014, the Company recorded share-based payments of \$704,590 and \$495,668, respectively. The fair values of share options granted during the fiscal years ended December 31, 2015 and 2014 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<b>2015</b>	<b>2014</b>
Risk-free interest rate	1.29%	1.72%
Estimated annualized volatility based on comparable companies	103%	100%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	\$0.55	\$0.55
Fair value	\$0.49	\$0.47
Share price	\$0.56	\$0.55

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**6. SHARE CAPITAL (CONTINUED)**

**[e] Stock options (continued)**

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

	Number	Weighted Average Exercise Price \$
<b>Balance, December 31, 2013</b>	<b>1,369,735</b>	<b>0.27</b>
Amendment <sup>[i]</sup>	674,602	0.35
Granted	553,000	0.55
<b>Balance, December 31, 2014</b>	<b>2,597,337</b>	<b>0.35</b>
Exercised <sup>[ii]</sup>	(125,000)	0.35
Cancelled, expired or forfeited	(230,000)	0.35
Granted	1,695,000	0.55
<b>Balance, December 31, 2015</b>	<b>3,937,337</b>	<b>0.44</b>

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

[ii] Average trading price when options exercised in the year ended December 31, 2015 was \$0.58 per share (2014 - none exercised).

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	432,500
July 9, 2023	\$0.57	300,000	75,000
September 30, 2023	\$0.55	645,000 <sup>[i]</sup>	148,500
<b>Balance, December 31, 2015</b>	<b>\$0.44</b>	<b>3,937,337</b>	<b>2,606,337</b>

[i] Subsequent to the fiscal year ended December 31, 2015, 224,000 of these options were cancelled in March 2016.

As of December 31, 2015, the weighted average remaining life for outstanding options was 6.3 years (2014 - 6.5 years).

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**7. ACQUISITION OF TEORA HEALTH LTD.**

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 a branded generic ophthalmology product within Canada. In exchange, the Company issued 3,360,000 common shares of the Company valued at \$1,002,120, paid off \$154,817 liabilities of TeOra 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 and upon achievement of certain milestones.

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, respectively. Acquisition cost of intangible assets is 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 is deferred and expensed using the graded vesting approach. During the reporting period ended December 31, 2015, the Company recorded amortization expense of \$84,794 and share-based payment of \$116,328 related to the acquisition of TeOra. As of December 31, 2015, the net book value of the asset and services acquired were as follows:

	<b>Intangible Assets \$</b>	<b>Deferred Share-based Payments \$</b>	<b>Total \$</b>
<b>Cost:</b>			
<b>Balance, December 31, 2014</b>	—	—	—
Acquisition cost	847,945	391,440	1,239,385
<b>Balance, December 31, 2015</b>	<b>847,945</b>	<b>391,440</b>	<b>1,239,385</b>
<b>Accumulated amortization:</b>			
<b>Balance, December 31, 2014</b>	—	—	—
Amortization of intangible assets	84,794	—	84,794
Amortization of share-based payments	—	116,328	116,328
<b>Balance, December 31, 2015</b>	<b>84,794</b>	<b>116,328</b>	<b>201,122</b>
<b>Net book value:</b>			
<b>As of December 31, 2014</b>	—	—	—
<b>As of December 31, 2015</b>	<b>763,151</b>	<b>275,112</b>	<b>1,038,263</b>

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**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:

	Year Ended December 31, 2015 \$	Year Ended December 31, 2014 \$
Subcontract research and licensing fees	331,924	348,561
Management fees	424,000	238,000
Consulting fees	354,417	92,500
	<b>1,110,341</b>	<b>679,061</b>

[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, the current directors of the Company. Pursuant to the terms of this research service contract which expired on December 31, 2015, the Company compensates TRPL for research work requested and pre-approved by the Company in exchange for the right to acquire an exclusive worldwide right to any intellectual property arising from or related to the research work. There is no fixed financial commitment under this research service contract. The Company incurred subcontract research fees of \$331,924 and \$348,561 during the fiscal periods ended December 31, 2015 and 2014, respectively.

As of December 31, 2015, the Company included in its accounts payable and accrued liabilities \$Nil (2014 - \$57,363) due to TRPL.

[ii] Effective September 1, 2014, the Company entered into a management services agreement with Northview Lifesciences (formerly Northview Ventures and Associates General Partnership) (“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 the year ended December 31, 2015, Northview charged a total management fee 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 Venture Exchange, respectively. During the preceding year ended December 31, 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 (2014 – \$28,350) due to Northview.

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**8. RELATED PARTY DISCLOSURE (CONTINUED)**

**[a] Transactions with related parties (continued)**

[iii] Prior to September 1, 2014, the Company had a consultancy arrangement with Mr. Janzen for his management services at a monthly rate of \$10,000. This arrangement was replaced by the Northview Agreement on September 1, 2014. Mr. Janzen charged the Company management fees of \$80,000 during the preceding fiscal year ended December 31, 2014.

[iv] 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 Consulting Agreement with a term expiring on November 30, 2016, Ms. Yip and other personnel of KeenVision provide financial services normally assumed by the Chief Financial Officer 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 the year ended December 31, 2015, KeenVision received total consulting fees of \$123,500 including bonuses of \$12,500 and \$15,000 for listing on the TSX Venture Exchange and filing a shelf prospectus, respectively. During the preceding year ended December 31, 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 (2014 -\$8,400) due to KeenVision.

[v] 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 year ended December 31, 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 (2014 - \$Nil) due to Mr. Ball.

[vi] The Company entered into a consulting service agreement with Dr. Don McAfee who serves as the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement with a term expiring on December 31, 2015, Dr. McAfee was compensated at a daily rate of US\$1,000. During the year ended December 31, 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 due to Dr. McAfee.

[vii] The Company has included \$9,240 (2014 - \$33,778) in its accounts payable and accrued liabilities due to officers of the Company for business expense reimbursements.



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**8. RELATED PARTY DISCLOSURE (CONTINUED)**

**[a] Transactions with related parties (continued)**

[viii] 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 the preceding fiscal year ended December 31, 2014. They ceased to be directors of the Company in October 2014.

**[b] Key management compensation**

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

	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Management fees	424,000	238,000
Consulting fees	354,417	92,500
Share-based payments	642,275	425,434
	<b>1,420,692</b>	<b>755,934</b>

**9. COMMITMENTS AND CONTINGENCIES**

**[a] Operating lease**

On January 1, 2014, the Company entered into an office sharing agreement for an office premise. This office sharing agreement had a term until March 31, 2018. Pursuant to this agreement, the Company was obligated to pay a minimum monthly rent of \$9,048 and had a right to terminate the office arrangement with a 90-day written notice after January 1, 2015. The Company exercised its termination right in February 2015 and moved out from the office facility in April 2015.

On April 9, 2015, the Company entered into a sublease agreement for its Vancouver head office premise expiring on November 30, 2018 and paid a security deposit of \$62,192. Pursuant to this agreement, the Company is obligated to pay basic rent of \$8,893 and operating rent, currently estimated at \$6,655, on a monthly basis starting June 1, 2015.

**[b] Development agreement**

On May 23, 2014, the Company entered into a development agreement with Corium International Inc. (“**Corium**”) which requires the Company to fund research and development work. Pursuant to this development agreement, the Company has a minimum financial commitment of \$289,815 (US\$261,000) and an option to contract additional research studies at \$464,040 (US\$400,000). During the fiscal year ended December 31, 2015, the Company paid \$1,072,784 or US\$840,324 (2014 - \$289,815 or US\$261,000) to Corium.

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**9. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**[c] Contingencies**

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

As of December 31, 2015 and 2014, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the Financial Statements with respect to these indemnification obligations.

**10. OPERATING SEGMENT**

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

**11. OPERATING EXPENSES**

**[a] Research and development expenses**

	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Patent and intellectual property protection	104,629	30,303
Professional and consulting fees <i>[note 8]</i>	380,970	221,476
Share-based payments	54,705	113,682
Subcontract research costs <i>[note 8]</i>	340,428	359,520
Subcontract development costs	1,219,539	289,814
Travel and accommodation	44,217	26,629
	<b>2,144,488</b>	<b>1,041,424</b>

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**11. OPERATING EXPENSES (CONTINUED)**

**[b] Sales and marketing expenses**

	<b>Year Ended December 31, 2015 \$</b>	<b>Year Ended December 31, 2014 \$</b>
Advertising and promotion	35,806	—
Consulting and management fees <i>[note 8]</i>	152,870	—
Depreciation and amortization	84,794	—
Printing and other expenses	20,039	—
Subcontract salesforce	103,804	—
Share-based payments	139,796	—
Travel and accommodation	18,068	—
	<b>555,177</b>	<b>—</b>

**[c] General administration expenses**

	<b>Year Ended December 31, 2015 \$</b>	<b>Year Ended December 31, 2014 \$</b>
Advertising and promotion	155,634	37,162
Consulting and management fees <i>[note 8]</i>	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
	<b>2,355,485</b>	<b>1,435,896</b>

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**12. CAPITAL DISCLOSURES**

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

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2015.

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair value**

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

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

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data.

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

**[a] Credit risk**

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash 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.

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**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**[b] Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 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 year 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:

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

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 U.S. dollar would result in a change of \$629 (2014 - \$339) in the Company's net loss and comprehensive loss.

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**14. INCOME TAXES**

At December 31, 2015, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, that expires as follows:

<b>Expiry Date</b>	<b>Non-Capital Losses \$</b>
December 31, 2032	790,774
December 31, 2033	1,763,458
December 31, 2034	3,331,342
	<b>5,885,574</b>

The Company also has a tax pool of approximately \$1,331,000 related to scientific research and experimental development expenditures in Canada available to carry forward indefinitely to reduce taxable income of future years.

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

	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Deferred income tax assets:</b>		
Property and equipment	1,340	584
Intangible asset	10,117	—
Share issuance costs	151,900	110,504
Scientific research and experimental development expenditures	345,961	96,584
Non-capital loss carryforwards	1,530,249	664,101
Total deferred income tax assets	2,039,567	871,773
Deferred income tax assets not recognized	(2,039,567)	(871,773)
Net deferred income tax assets	—	—

The potential income tax benefits relating to the net deferred income tax assets have not been recognized in the financial statements as their realization did not meet the requirements of "probable" under the liability method of tax allocation. Accordingly, no net deferred income tax assets have been recognized as at December 31, 2015 and 2014. The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 26% statutory tax rate is:

	<b>Year Ended December 31, 2015 \$</b>	<b>Year Ended December 31, 2014 \$</b>
Expected income tax recovery at statutory rates	(1,302,966)	(626,912)
Items not deductible for tax purposes	221,718	130,654
Benefits not recognized	1,081,248	496,258
Income tax expense	—	—

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**15. SUBSEQUENT EVENTS**

- [a] On January 12, 2016, the Company closed a non-brokered private placement in the United States of 1,797,422 Common Shares (the “**Private Placement**”) and a non-brokered public offering in Canada of 3,500,000 Common Shares (the “**Public Offering**”), 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 financing and recorded these financing expenses as deferred financing costs.
- [b] On February 16, 2016, the Company announced that it had entered into a licensing agreement for the Canadian commercial rights to Trokendi XR® and Oxtellar XR® with Supernus Pharmaceuticals, Inc (“**Supernus**”). Under the terms of the license agreement, the Company paid Supernus an initial payment of US\$350,000 and committed to paying Supernus US\$6,650,000 based on achievement of regulatory and sales milestones and royalties based on product sales in Canada. The Company is responsible for the regulatory submission and commercial activities for both products in Canada.
- [c] On April 21, 2016 the Company granted 900,000 incentive stock options to directors, officers and consultants in accordance to the Stock Option Plan. These stock options are granted for an eight-year term and an exercise price of \$0.47 per common share. Of these options, 275,000 will vest immediately and 625,000 will vest over a thirty-month period starting October 21, 2016.