Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

(Unaudited – expressed in Canadian dollars)

NOTICE TO READER

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

The accompanying unaudited condensed consolidated interim financial statements of Aequus Pharmaceuticals Inc. (the "Company") have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015 have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars.

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

	Note	March 31, 2016 $	December 31, 2015 $
ASSETS			
Current			
Cash and cash equivalents		767,677	1,163,812
Amounts receivable		199,651	94,309
Prepaid expenses and other		190,338	75,256
Deferred financing costs	7[b][iii]	—	51,563
		1,157,666	**1,384,940**
Property and equipment		5,739	6,535
Intangible assets	5	1,199,693	763,151
Deferred share-based payments	6	210,564	275,112
		1,415,996	**1,044,798**
Total assets		**2,573,662**	**2,429,738**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	570,714	1,145,077
Total liabilities		**570,714**	**1,145,077**
SHAREHOLDERS' EQUITY			
Share capital	7	10,097,417	7,582,240
Common share subscriptions received	7[b][iii]	—	719,575
Contributed surplus		2,122,076	2,034,726
Deficit		(10,216,545)	(9,051,880)
Total shareholders' equity		**2,002,948**	**1,284,661**
Total liabilities and shareholders' equity		**2,573,662**	**2,429,738**

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

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

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on May 26, 2016 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Chris Clark
Director

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

	Note	Three Months Ended March 31, 2016 $	Three Months Ended March 31, 2015 $
Revenue		116,083	—
Expenses			
Research and development	9[a]	169,093	379,586
Sales and marketing	9[b]	443,863	—
General administration	9[c]	670,440	734,131
		1,283,396	1,113,717
Loss before other income		**(1,167,313)**	**(1,113,717)**
Other income (loss)			
Interest income		944	3,699
Foreign exchange gain (loss)		1,704	(16,210)
		2,648	**(12,511)**
Net loss and comprehensive loss		**(1,164,665)**	**(1,126,228)**
Basic and diluted loss per common share		**(0.03)**	**(0.04)**
Weighted average number of common shares outstanding		**44,211,201**	**28,938,206**

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

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian dollars)

	Common Shares		Special Warrants		Subscriptions Received	Contributed Surplus	Deficit	Total
	Number	**$**	**Number**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2014	**25,975,347**	**2,029,127**	**8,044,301**	**3,599,524**	**-**	**1,333,221**	**(4,040,475)**	**2,921,397**
Deemed exercise of special warrants *[note 7[b][i]]*	7,618,780	3,599,524	(8,044,301)	(3,599,524)	-	-	-	**-**
Share-based compensation	-	-	-	-	-	273,108	-	**273,108**
Net loss for the period	-	-	-	-	-	-	(1,126,228)	**(1,126,228)**
Balance, March 31, 2015	**33,594,127**	**5,628,651**	**-**	**-**	**-**	**1,606,329**	**(5,166,703)**	**2,068,277**
Issued for cash pursuant to exercise of options	125,000	81,273	-	-	-	(37,524)	-	**43,749**
Issued for cash pursuant to a public financing *[note 7[b][ii]]*	2,475,000	870,196	-	-	-	34,439	-	**904,635**
Issued for acquisition of intangible asset and services *[notes 5[a] and 6]*	3,360,000	1,002,120	-	-	-	-	-	**1,002,120**
Subscription received for ongoing financing	-	-	-	-	719,575	-	-	**719,575**
Share-based compensation	-	-	-	-	-	431,482	-	**431,482**
Net loss for the period	-	-	-	-	-	-	(3,885,177)	**(3,885,177)**
Balance, December 31, 2015	**39,554,127**	**7,582,240**	**-**	**-**	**719,575**	**2,034,726**	**(9,051,880)**	**1,284,661**
Issued for cash pursuant to a non-brokered private placement and a non-brokered public offering *[note 7[b][iii]]*	5,297,422	2,515,177	-	-	-	-	-	**2,515,177**
Subscription received for ongoing financing	-	-	-	-	(719,575)	-	-	**(719,575)**
Share-based compensation	-	-	-	-	-	87,350	-	**87,350**
Net loss for the period	-	-	-	-	-	-	(1,164,665)	**(1,164,665)**
Balance, March 31, 2016	**44,851,549**	**10,097,417**	**-**	**-**	**-**	**2,122,076**	**(10,216,545)**	**2,002,948**

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

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2016 $	Three Months Ended March 31, 2015 $
OPERATING ACTIVITIES			
Net loss for the period		(1,164,665)	(1,126,228)
Add items not affecting cash:			
Depreciation of property and equipment		796	374
Depreciation of intangible assets		42,398	—
Share-based payments	7[e]	151,898	273,108
		(969,573)	(852,746)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(105,342)	(44,057)
Prepaid expenses and other		(115,082)	(37,783)
Accounts payable and accrued liabilities		(522,800)	(371,706)
Cash used in operating activities		**(1,712,797)**	**(1,306,292)**
INVESTING ACTIVITIES			
Purchase of intangible assets	5	(478,940)	—
Cash used in investing activities		**(478,940)**	—
FINANCING ACTIVITIES			
Issuance of common shares, net of issuance costs	7[b]	1,795,602	—
Cash provided by financing activities		**1,795,602**	**—**
Decrease in cash and cash equivalents		**(396,135)**	**(1,306,292)**
Cash and cash equivalents, beginning of the period		1,163,812	3,576,071
Cash and cash equivalents, end of the period		**767,677**	**2,269,779**
Cash and cash equivalent consists of:			
Cash		117,677	753,101
Demand deposits		650,000	1,516,678
		767,677	**2,269,779**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Business Description

Aequus Pharmaceuticals Inc. (the "**Company**") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013. The Company is a specialty pharmaceutical company focused on developing and commercializing high quality and differentiated products. The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

Going Concern and Uncertainty

These condensed consolidated interim financial statements (the "**Financial Statements**") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2016, the Company has accumulated a deficit of $10,216,545 (December 31, 2015 – $9,051,880) and working capital of $586,952 (December 31, 2015 – $239,863). Although it is difficult to predict future liquidity requirements, management believes the Company has working capital to finance its operations until the 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 substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern depends on its ability to obtain additional equity financing and to generate operational cash flow from its newly acquired business of TeOra Health Ltd. ("**TeOra**"). On July 28, 2015, the Company completed its acquisition of TeOra, a privately held Canadian specialty pharmaceutical company (the "**TeOra Acquisition**") *[Notes 5[a] and 6]*. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market PR Vistitan™, an ophthalmology product within Canada. On September 29, 2015, the Company further expanded this exclusive promotional right to include a transplant product called Tacrolimus IR, as well as potentially two additional branded generic transplant products from the same producer. The Company will receive revenues based on agreed upon percentages of net sales. The Company has started generating revenue from Tacrolimus IR and expect to generate revenue from PR Vistitan™ in the second quarter of 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.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2015, which have been prepared with International Financial Reporting Standards ("**IFRS**"). These Financial Statements were approved by the Company's Board of Directors on May 26, 2016.

[b] Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

[c] Functional and foreign currency

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

[d] Significant accounting estimates and judgments

The preparation of these Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Critical Judgments

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

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

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

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

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

Estimation Uncertainty

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

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

ii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

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2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty (continued)

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management' 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.

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2015, except for the following:

Revenue Recognition

Revenue related to the sale of products is recognized when title and risk of loss is passed to the customer. Gross revenue is reduced by discounts, credits, allowances and product returns. Revenue related to a fee arrangement with a partner, where the Company earns a fee based on certain pre-determined terms relating to the gross or net sales of products is recognized as such terms are met alongside the recording of partner product revenues.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

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

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

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

4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

New Standards Recently Adopted (continued)

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

New Standards Not Yet Effective

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

- **IFRS 9** *Financial Instruments* – This standard provides added guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018.

- **IFRS 15** *Revenue from Contracts with Customers* – The standard covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning or after January 1, 2018.

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

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

(Unaudited - expressed in Canadian dollars)

5. INTANGIBLE ASSETS

[a] On July 28, 2015, the Company acquired all issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market PR Vistitan™, an ophthalmology product within Canada. In exchange for these assets and services of TeOra shareholders *[Note 6]*, the Company issued 3,360,000 common shares of the Company valued at $1,002,120, 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 for services performed 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 *[Note 6]*, 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. During the three months ended March 31, 2016, the Company recorded amortization expense of $42,397 (2015 – $nil).

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

As of March 31, 2016, the net book value of intangible assets are as follows:

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2015	847,945	—	847,945
Initial advance for license	—	478,940	478,940
Balance, March 31, 2016	**847,945**	**478,940**	**1,326,885**
Accumulated amortization:			
Balance, December 31, 2015	84,794	—	84,794
Amortization of intangible assets	42,398	—	42,398
Balance, March 31, 2016	**127,192**	—	**127,192**
Net book value:			
As of December 31, 2015	763,151	—	753,151
As of March 31, 2016	**720,753**	**478,940**	**1,199,693**

(Unaudited - expressed in Canadian dollars)

6. DEFERRED SHARE-BASED PAYMENTS

On July 28, 2015, the Company acquired all of the issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market PR Vistitan™, an ophthalmology product within Canada *[Note 5[a]]*. Share-based payment for services of TeOra principals is deferred and expensed using the graded vesting approach. During the three months ended March 31, 2016, the Company recorded share-based payment of $64,548 (2015 – $nil) related to the acquisition of TeOra. As of March 31, 2016, the net book value of the services acquired were as follows:

	Deferred share-based payments **$**
Cost:	
Balance, December 31, 2015 and March 31, 2016	**391,440**
Accumulated amortization:	
Balance, December 31, 2015	116,328
Amortization of share-based payments	64,548
Balance, March 31, 2016	**180,876**
Net book value:	
As of December 31, 2015	275,112
As of March 31, 2016	**210,564**

7. SHARE CAPITAL

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of March 31, 2016, and December 31, 2015, there were no preferred shares issued and outstanding

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

[b] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares without par value		
Issued and Outstanding		
Balance, December 31, 2014	**25,975,347**	**2,029,127**
Issued for deemed exercise of special warrants *[note 7[b][i]]*	7,618,780	3,599,524
Balance, March 31, 2015	**33,594,127**	**5,628,651**
Issued for cash pursuant to exercise of options	125,000	81,273
Issued for purchase of intangible assets and services *[notes 5[a] and 6]*	3,360,000	1,002,120
Issued for cash pursuant to a public financing *[note 7[b][ii]]*	2,475,000	870,196
Balance, December 31, 2015	**39,554,127**	**7,582,240**
Issued for cash pursuant to a non-brokered private placement and a non-brokered public offering *[note 7[b][iii]]*	5,297,422	2,515,176
Balance, March 31, 2016	**44,851,549**	**10,097,417**

Held in Escrow Accounts	**Number of Shares**	**Percentage of Escrowed Shares**
*(i) Pursuant to listing requirements of the TSX Venture Exchange ("**TSX-V**")*		
Balance, December 31, 2014	—	—
Shares subject to escrow pursuant to the TSX-V regulations	20,387,125	100.00%
Release on the listing date of March 17, 2015	(2,038,712)	(10.00%)
Release on September 17, 2015	(3,058,069)	(15.00%)
Balance, December 31, 2015	**15,290,344**	**75.00%**
Release on March 17, 2016	(3,058,069)	(15.00%)
Balance, March 31, 2016	**12,232,275**	**60.00%**
(ii) Pursuant to the terms of the TeOra Acquisition		
Balance, December 31, 2014	—	—
Shares subject to escrow pursuant to the terms of the TeOra Acquisition	3,360,000	100.00%
Release on the closing of the TeOra Acquisition	(420,000)	(12.50%)
Balance, December 31, 2015 and March 31, 2016	**2,940,000**	**87.50%**
Balance, December 31, 2015	**18,230,344**	
Balance, March 31, 2016	**15,172,275**	

As of March 31, 2016, the Company had 15,172,275 common shares, representing 33.8% of its issued and outstanding shares, held in escrow accounts.

7. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

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

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

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

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

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

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

iii. On January 12, 2016, the Company closed a non-brokered private placement in the United States of 1,797,422 common shares and a non-brokered public offering in Canada of 3,500,000 common shares at a price of $0.50 per share for total gross proceeds of $2,648,711. Of these proceeds, $719,575 were collected and recorded as common share subscription received at December 31, 2015. In connection to this financing, the Company paid professional fees and other related financing costs of $133,534. Of these issuance costs, $51,563 were incurred and recorded as deferred financing costs at December 31, 2015.

[c] Common share purchase warrants

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2014	**510,390**	**0.75**
Issued	3,809,388	0.75
Balance, December 31, 2015, and March 31, 2016	**4,319,778**	**0.75**

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

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

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

Agents' special warrants and broker's warrant transactions and the number of warrants outstanding are summarized below:	**Number**	**Weighted Average Exercise Price $**
Balance, December 31, 2014	—	—
Issued in connection with the Offering *[note 7[b][i]]*	425,521 [i]	0.55
Issued in connection with the 2015 Financing *[note 7[b][ii]]*	123,750 [ii]	0.50
Balance, December 31, 2015, and March 31, 2016	**549,271**	**0.54**

[i] Each Agents' Warrant entitles the holder to acquire one unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant at an exercise price of $0.55 per Agents' Warrant until November 20, 2016. Each whole warrant entitles the holder to acquire an additional common share at a purchase price of $0.75 per warrant for a period of 24 months following the date of issuance of the Agents' Warrant.

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

[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.

(Unaudited - expressed in Canadian dollars)

7. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

During the three months ended March 31, 2016 and 2015, the Company recorded share-based payments of $151,898 and $273,108, respectively. The following weighted-average assumptions were used to estimate the fair values of share options granted during the three months ended March 31, 2015. No options were granted during the three months ended March 31, 2016.

	2015
Risk-free interest rate	1.29%
Estimated annualized volatility based on comparable companies	103%
Expected life	8 years
Expected dividend yield	0%
Exercise price	$0.55
Fair value	$0.49
Share price	$0.56

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2014	**2,597,337**	**0.35**
Exercised [i]	(125,000)	0.35
Cancelled, expired or forfeited	(230,000)	0.35
Granted	1,695,000	0.55
Balance, December 31, 2015	3,937,337	0.44
Cancelled, expired or forfeited	(224,000)	0.55
Balance, March 31, 2016	**3,713,337**	**0.43**

[i] Average trading price when options exercised in the year ended December 31, 2015 was $0.58 per share.

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
May 31, 2020	$0.25	1,124,337	1,124,337
December 12, 2021	$0.35	565,000	423,750
December 1, 2022	$0.55	203,000	139,750
December 18, 2022	$0.55	350,000	262,500
March 6, 2023	$0.55	750,000	591,250
July 9, 2023	$0.57	300,000	112,500
September 30, 2023	$0.55	421,000	236,000
Balance, March 31, 2016	**$0.43**	**3,713,337**	**2,890,087**

As of March 31, 2016, the weighted average remaining life for outstanding options was 5.95 years (December 31, 2015 – 6.3 years)

(Unaudited - expressed in Canadian dollars)

8. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

	Three Months Ended March 31, 2016 $	Three Months Ended March 31, 2015 $
Sub-contract research and licensing fees [i]	135,817	73,454
Management fees [ii]	151,000	141,000
Consulting fees [iii] [iv] [v]	103,465	85,734
	390,282	**300,188**

[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 $135,817 and $73,454 during the three months ended March 31, 2016 and 2015, respectively.

[ii] Effective September 1, 2014, the Company entered into a management services agreement with Northview Lifesciences, formerly Northview Ventures and Associates General Partners ("**Northview**"), 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. Effective February 1, 2016, the monthly rate is increased to $37,000. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development, sales and marketing, and general administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. During the three months ended March 31, 2016, Northview charged total management fees of $151,000 including a bonus of $50,000 for completing a financing milestone. During the three months ended March 31, 2015, Northview charged total management fees of $141,000 including a bonus of $60,000 for listing on the TSX-V.

As of March 31, 2016, the Company included in its accounts payable and accrued liabilities $57,473 (December 31, 2015 – $77,622) due to Northview.

8. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

[iii] On December 1, 2014, the Company entered into a consulting services agreement with KeenVision Consulting Inc. ("**KeenVision**") and Christina Yip (the "**KeenVision Agreement**"). Ms. Yip is the Acting Chief Financial Officer of the Company. Pursuant to the KeenVisioin 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 and Controller 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 three months ended March 31, 2016, KeenVision charged total consulting fees of $34,000 including a bonus of $10,000 for completing a financing milestone. During the three months ended March 31, 2015, KeenVision charged total consulting fees of $36,500 including a bonus of $12,500 for listing on the TSX-V.

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $8,400 (December 31, 2015 – $25,200) due to KeenVision.

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

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $19,798 (December 31, 2015 – $15,041) due to Mr. Ball.

[v] The Company entered into a consulting service agreement with Dr. Don McAfee who serves as the Acting Chief Scientific Officer of the Company. Pursuant to this consulting agreement with a term expiring on December 31, 2016, Dr. McAfee was compensated at a daily rate of US$1,000. During the three months ended March 31, 2016, Dr. McAfee charged total consulting fees of $33,465 (March 31, 2015 – $49,234).

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $8,510 (December 31, 2015 – $7,620) due to Dr. McAfee.

(Unaudited - expressed in Canadian dollars)

8. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

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

	Three Months Ended March 31, 2016 $	**Three Months Ended March 31, 2015 $**
Management fees	151,000	141,000
Consulting fees	103,465	85,734
Share-based payments	119,937	264,791
	374,402	**491,525**

9. OPERATING EXPENSES

[a] Research and development expenses

	Three Months Ended March 31, 2016 $	**Three Months Ended March 31, 2015 $**
Patent and intellectual property protection	5,062	22,077
Professional and consulting fees *[note 8[a]]*	63,715	90,784
Salaries and wages	3,622	—
Share-based payments	9,670	12,295
Subcontract research and development costs *[note 8[a][i] and [note 10[b]]*	84,539	245,758
Travel and accommodation	2,485	8,672
	169,093	**379,586**

(Unaudited - expressed in Canadian dollars)

9. OPERATING EXPENSES (CONTINUED)

[b] Sales and marketing expenses

	Three Months Ended March 31, 2016 $	Three Months Ended March 31, 2015 $
Advertising and promotion	26,855	—
Consulting and management fees *[note 8[a]]*	99,471	—
Depreciation and amortization	42,398	—
Printing and other expenses	1,400	—
Salaries and wages	18,500	—
Share-based payments	60,444	—
Subcontract salesforce	142,598	—
Travel and accommodation	52,197	—
	443,863	**—**

[c] General administration expenses

	Three Months Ended March 31, 2016 $	Three Months Ended March 31, 2015 $
Consulting and management fees *[note 8[a]]*	359,607	172,100
Legal and professional fees	84,929	140,994
Other general administration expenses	69,897	46,483
Regulatory, transfer agent and listing fees	18,131	79,368
Salaries and benefits	15,656	11,536
Share-based payments	81,784	260,813
Travel and accommodation	40,436	22,837
	670,440	**734,131**

10. COMMITMENTS AND CONTINGENCIES

[a] Operating lease

On April 9, 2015, the Company entered into a sublease agreement for its new Vancouver head office premise expiring on November 30, 2018, and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay basic rent of $8,893 and operating rent, currently estimated at $6,655, on a monthly basis starting 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). The Company had fulfilled its minimum financial commitment of $289,815 (US$261,000) during the fiscal year ended December 31, 2014. During the three months ended March 31, 2016, the Company had renegotiated with Corium for work conducted in the preceding year and recovered subcontract development costs of $67,719 (US$50,000).

[c] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 5[b]]*, in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay US$2.15 million following a successful pre-submission meeting with Health Canada, US$2.5 million upon regulatory approval of Topiramate XR, and US$500,000 upon regulatory approval of Oxcarbazepine XR. The Company is also required to pay royalty payments based on net sales at a rate of 15%, as well as a milestone payment of US$1.5 million linked to achievement of a combined sales of US$25 million of Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

[d] Contingencies

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

As of March 31, 2016, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the financial statements with respect to these indemnification obligations.

11. CAPITAL DISCLOSURES

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

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the period ended March 31, 2016.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

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

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

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 – inputs for the asset or liability that are not based upon observable market data.

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

[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 $650,000 cashable GIC at March 31, 2016. Amounts receivable consist of primarily goods and services tax ("**GST**") due from the Government of Canada and trade account receivable from a collaborative partner.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of March 31, 2016, the Company had working capital $586,952 (December 31, 2015 – $239,863).

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the periods ended March 31, 2016 and 2015, fluctuations in the market interest rates had no significant impact on its interest income.

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in U.S. dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have an effect on the Company's results of operations, financial position or cash flows.

As at March 31, 2016 and December 31, 2015, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2016 US$	**December 31, 2015 US$**
Cash	(3,235)	384,841
Accounts payable and accrued liabilities	(43,450)	(375,748)
Total	**(46,685)**	**9,093**

Based on the above net exposure as at March 31, 2016, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $3,031 in the Company's net loss and comprehensive loss (December 31, 2015 – $629).

13. SUBSEQUENT EVENTS

[a] The Company granted 900,000 incentive stock options to directors, officers and consultants in accordance to the Stock Option Plan. These stock options, with an effective date of April 21, 2016, 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.

[b] The Company initiated commercial activities for PR Vistitan™ in the Canadian market on April 28, 2016, and received from its partner an advance payment of $58,644, inclusive of GST, for its profit share arrangement on sales of PR Vistatin™ on May 8, 2016.