MANAGEMENT'S DISCUSSION AND ANALYSIS

As of August 27, 2018

For the six months ended June 30, 2018

This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the three ended June 30, 2018, and is performed by management using information available as of August 27, 2018. We have prepared this MD&A with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017, and the related notes thereto ("**Annual Financial Statements**"). The Company's Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are expressed in Canadian dollars unless otherwise indicated.

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

- *our ability to obtain funding for our operations, including funding for research and commercial activities;*
- *our ability to promote and market third party products and the anticipated timing thereof, including our ability to successfully market Tacrolimus IR, ^{PR}Vistitan^{TM} and Zepto® Precision Pulse Capsulotomy System, in Canada;*
- *our anticipated regulatory submissions and commercial activities in Canada in respect of Topiramate XR and Oxcarbazepine XR;*
- *the expected benefits of Tacrolimus IR, ^{PR}Vistitan^{TM}, Zepto® Precision Pulse Capsulotomy System, Topiramate XR, and Oxcarbazepine XR;*
- *our estimates of the size and characteristics of the potential markets for Tacrolimus IR, ^{PR}Vistitan^{TM}, Zepto® Precision Pulse Capsulotomy System, Topiramate XR, Oxcarbazepine XR and our internal product candidates;*
- *the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;*
- *the Company's development of its cannabinoid programs (AQS1304);*
- *our expected use of proceeds from the 2017 Offering (as defined below);*
- *the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;*
- *our business model and strategic plans;*
- *our ability to advance product candidates into, and successfully complete, clinical trials;*
- *our ability to recruit sufficient numbers of patients for our future clinical trials;*
- *our ability to achieve profitability;*
- *our ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;*
- *whether our third-party collaborators will maintain their intellectual property rights in the technology we license;*
- *the manufacturing capacity of third-party manufacturers for our product candidates;*
- *the implementation of our business model and strategic plans;*
- *our ability to develop and commercialize product candidates;*
- *our commercialization, marketing and manufacturing capabilities and strategy;*
- *our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;*
- *our expectations regarding federal, provincial and foreign regulatory requirements;*
- *whether we will receive, and the timing and costs of obtaining, regulatory approvals in the United States, Canada, the European Union and other jurisdictions for our product candidates;*
- *the therapeutic benefits, effectiveness and safety of our product candidates;*
- *the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our products and product candidates;*
- *the rate and degree of market acceptance and clinical utility of our future products, if any;*
- *the timing of, and our ability and our collaborators' ability, if any, to obtain and maintain regulatory approvals for our product candidates;*
- *our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;*
- *our ability to engage and retain the employees or consultants required to grow our business;*
- *the compensation that is expected to be paid to employees and consultants of the Company;*

- *our future financial performance and projected expenditures;*
- *developments relating to our competitors and our industry, including the success of competing therapies that are or become available; and*
- *estimates of our expenses, future revenue, and capital requirements.*

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

*In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined below under the heading "Financial Instruments and Risks" and under the heading "Risk Factors" in the Company's 2018 Annual Information Form ("**2018 AIF**") filed on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.*

OVERVIEW

Aequus is a revenue-generating specialty pharmaceutical company, with a foundation built on improving drug delivery of existing medications and commercializing value-add products in specialty therapeutic areas in the Canadian market. Aequus has a diversified portfolio of internally developed clinical and preclinical stage reformulated products, as well as a number of commercial stage, third party products that fulfill an identified unmet medical need.

Our commercial infrastructure is Canadian-based, with specialty sales representatives currently promoting two specialty medicines and one recently announced ophthalmology focused medical device to physicians. We leverage the unique demographics in Canada, such as a highly-concentrated population, to have an efficient sales force that we have been growing through promotional partnership agreements, asset acquisitions, in-licenses and in the future with our own internal development programs as they mature and enter the market.

Our development pipeline is focused on advancing products in specialty therapeutic areas with a goal of addressing the need for improved medication adherence or better product performance through enhanced delivery systems. Aequus intends to commercialize its internal programs in Canada alongside its current portfolio of marketed established medicines and will look to form strategic commercial relationships for these programs in other markets that would maximize the reach of its product candidates worldwide. Our most recent addition to the development pipeline was a long-acting form of medical cannabis, where there is a high need for a consistent, predictable and pharmaceutical-grade delivery of products for customers.

Both our development and commercial programs are supported and validated by insights from patients and physicians to ensure there is a realizable benefit for them from our work in advancing these products. Aequus' management team has a proven track record of successfully managing the required clinical development, regulatory approval processes, and marketing of products either directly or through collaborations. We continue to leverage our internal capabilities and know-how to execute an efficient commercial strategy and development plan to drive shareholder value.

GROWTH STRATEGY

Aequus is a revenue-generating, fully integrated specialty pharmaceutical company with development stage products and commercial activities in Canada. Aequus looks to leverage its core capabilities, commercial infrastructure and existing product portfolio to continue on the Company's current growth trajectory. The Company's near-term growth strategy includes the following key components:

- Advance development programs through proof of concept clinical studies and regulatory meetings with the United States Food and Drug Association ("**FDA**"), with the objective of the programs being to add sufficient value to execute at least one regional license in the near term; and
- Progressive build-out of the Company's commercial platform, including leveraging its specialty sales force in Canada to enable Aequus to continue to in-license and sell high-value, branded products in Canada.

Aequus has in-licensed two products, launched promotional activities for three third-party products in the Canadian market, and supported the advancement of its internal programs. These activities support the key areas of Aequus' growth strategy.

2018 HIGHLIGHTS – Six months ended June 20, 2018

Development Program Activities

- Formed a collaboration with CannaRoyalty Corp. ("**CannaRoyalty**") to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian physicians and opinion leaders. CannaRoyalty is expected to contribute its 10% equity stake in Bodhi Research & Development Inc. into the collaboration in exchange for an initial ownership position in the collaboration, subject to satisfaction of certain conditions and approvals.

- Received positive feedback from the United States Food and Drug Administration (the "**FDA**") on the Company's pre-Investigational New Drug submission ("**Pre-IND**") for the Company's long-acting anti-nausea transdermal patch, AQS1303. Through the pre-IND feedback, the Company has received clear regulatory guidance for AQS1303. The FDA confirmed that the planned Section 505(b)(2) abbreviated regulatory pathway, which allows for the Company to reference safety and efficacy data of the original oral tablet Diclegis®, is appropriate for submission in a New Drug Application ("**NDA**") for the program in the United States.

- Expanded its relationship with Corium International, Inc. ("**Corium**") to include the Company's long-acting transdermal patch, AQS1303, for the treatment of nausea and vomiting in pregnancy. Under the terms of the agreement, Corium will use its Corplex™ technology to improve the clinical performance of AQS1303 and will be the exclusive clinical and commercial manufacturer for the product.

Commercial Activities

- Awarded a three year contract, effective as of May 2018, with Sigma Santé for its partnered product, Tacrolimus IR, an immunosuppressive therapy used concomitantly with adrenal corticosteroids to prevent or treat rejection following organ transplant and for the reduction of symptoms experienced by patients with rheumatoid arthritis.

- Entered into a commercial agreement (the "**Mynosys Agreement**") with Mynosys Cellular Devices, an ophthalmology focused medical device company based in Fremont, California, ("**Mynosys**") for the Canadian distribution, sales and marketing of the Zepto® Precision Pulse Capsulotomy System ("**Zepto**") for cataract surgery. On May 16, 2018, the Company announced that it would be formally launching Zepto in Canada on June 1, 2018 during the Canadian Ophthalmological Society's 2018 Annual Meeting and Exhibition. Zepto was approved for sale in Canada by the Therapeutic Products Directorate in February 2018. Zepto is marketed by Aequus' pre-existing ophthalmology salesforce and is an attractive complement to its product offering. The first cataract procedures in Canada using Zepto were confirmed by the Company on June 18th with positive results.

Aequus expects to continue to advance its development programs through bioequivalence clinical studies and regulatory meetings with the FDA while also making select investments aimed at expanding and improving the efficiency of its sales channel in Canada through a combination of in-licensing and the acquisition of high-quality, differentiated products in specialty therapeutic areas. The Company also plans to expand its product portfolio to include additional established medicines that can be commercialized using the Company's established Canadian sales infrastructure.

HIGHLIGHTS SUBSEQUENT TO JUNE 30, 2018

- The Company issued 4,000,000 units at a price of $0.20 per share for total proceeds of $800,000. Each unit consists of one common share and one-half share purchase warrant, where one whole warrant is exercisable at a price of $0.30 for a period of 48 months under the prospectus supplement to the Company's base shelf prospectus.

- The Company issued 3,875,000 units at a price of $0.20 per share for total proceeds of $775,000. Each unit consists of one common share and one-half share purchase warrant, where one whole warrant is exercisable at a price of $0.30 for a period of 48 months following the date of closing. The Company paid a fee to certain arm's length finders in connection with the Units issued to investors introduced to the Company by the Finders, consisting of (i) a 7% cash payment on certain subscriptions in the aggregate amount of $33,250 and (ii) issued an aggregate of 166,250 Common Share purchase warrants.

- In July 2018, Aequus extended the term and improved the economics for its promotional service agreement with Sandoz for ^{PR}Vistitan™ ("Vistitan"). Aequus began promotional efforts in May 2016 for Vistitan (bimatoprost 0.03%, ophthalmic solution), which is approved in Canada for the reduction of elevated intraocular pressure ("IOP") in patients with open angle glaucoma or ocular hypertension. Under the previous agreement, Aequus and Sandoz split revenues based upon an agreed to tiered structure over the term. With this amendment, revenue splits as of 2019 will increase from the originally agreed to tiering schedule by an additional 7% of net product sales and up to an additional 12% if certain milestones are met. The term has been extended to June 2021, with an option for renewal if mutually agreed to.

- Aequus announced an expanded market opportunity for its reformulated anti-nausea transdermal patch, AQS1303, into the European market with the approval of Diclectin®, the oral reference product for AQS1303 for the treatment of nausea and vomiting of pregnancy, having recently received marketing authorization in the United Kingdom under the brand name Xonvea®. Aequus plans to launch AQS1303 in countries where an original oral form has been approved and an accelerated path to approval may exist for reformulated products.

KEY STRATEGIC COLLABORATIONS

SANDOZ CANADA, INC.

In October 2015, Aequus became the exclusive promotional and marketing partner for the first to market generic form of Tacrolimus IR. This product had already been approved by Health Canada. Aequus began promoting Tacrolimus IR for the treatment and prevention of acute rejection following organ transplantation in December, 2015.

In April 2016, Aequus launched promotional efforts in Canada for ^{PR}Vistitan^{TM}, a treatment for the reduction of elevated intraocular pressure in patients with open angle glaucoma or ocular hypertension. Aequus obtained multiple provincial formulary listings within the first six months of Vistitan's launch, including a Limited-Use drug designation on the Ontario Drug Benefit Plan. In July 2018, Aequus agreed to extend the term of the agreement with improved economics for its promotional service agreement with Sandoz for Vistitan.

SUPERNUS PHARMACEUTICALS, INC.

In February 2016, Aequus entered into an agreement with Supernus which was amended on June 15, 2016 for certain licensing fees ("**Supernus Agreement**"), whereby the Company acquired the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. Both products are branded, once-daily, extended-release anti-epileptic drugs ("**AEDs**"), and have been successfully marketed by Supernus in the U.S. since 2013 under the tradenames Trokendi XR® and Oxtellar XR®, respectively.

Under the terms of the Supernus Agreement, Aequus will be responsible for the regulatory submission and commercial activities for both products in Canada. Supernus is eligible to receive milestone payments and royalties from product sales in Canada. Aequus has since had on-going dialogue with Health Canada around the acceptability of the FDA clinical package and foreign market experience, and expects to conduct a small clinical study to support an NDS in 2018.

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

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

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

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

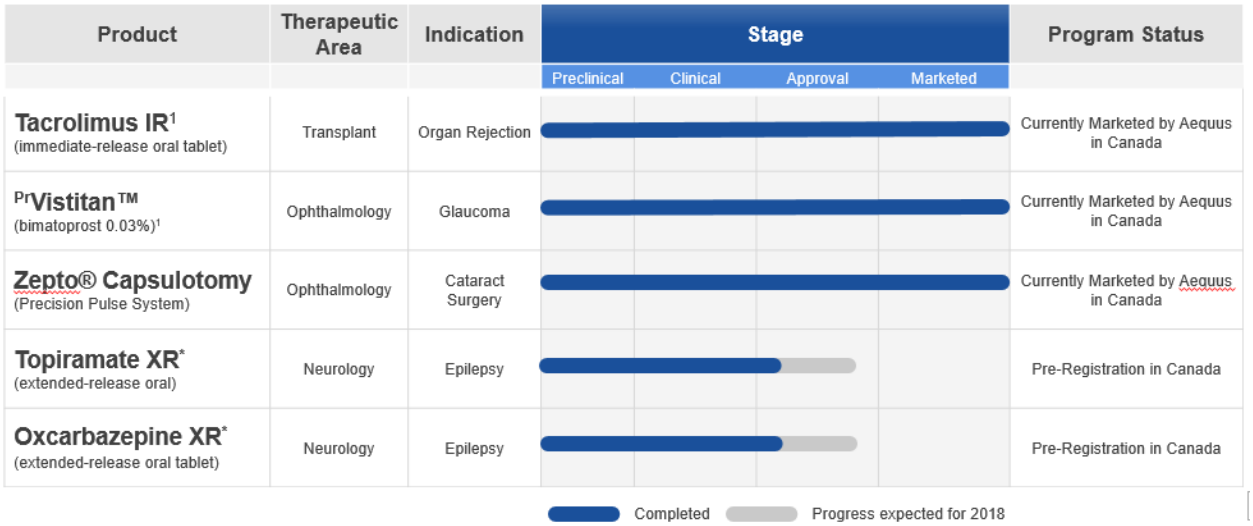
The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Topiramate XR and Oxcarbazepine XR include: (i) improved patient adherence with a once-daily dosing regimen, making it more probable that patients maintain sufficient level of medication in their bloodstream to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

MYNOSYS CELLULAR DEVICES

In April 2018, Aequus entered into a commercial agreement with Mynosys Cellular Devices ("**Mynosys**"), an ophthalmology focused medical device company based in Fremont, California, for the Canadian distribution, sales and marketing of the Zepto® Precision Pulse Capsulotomy System ("**Zepto**") for cataract surgery. Zepto was approved for sale in Canada by the Therapeutic Products Directorate in February 2018, and through this agreement is expected to be launched in Canada by Aequus in the second quarter of 2018. Zepto will be marketed by Aequus' current ophthalmology salesforce, and Aequus believes it is an attractive complement to its existing product offering.

This agreement to bring Zepto into the Canadian market has an initial term of three years, with an automatic and continuous renewal of additional three year terms, provided Aequus meets minimum sales targets. Aequus will retain profits on the products sold in Canada.

COMMERCIAL PRODUCT UPDATES



[1] *Aequus carries out the Canadian promotional activity for products owned by Sandoz*

Figure 1. Aequus' Canadian commercial pipeline

PRVISTITAN™ (bimatoprost 0.03%, ophthalmic solution)

Aequus' ophthalmology focused salesforce markets a branded ophthalmology product, PRVistitan™ (bimatoprost 0.03%, ophthalmic solution). Commercial activities for this product commenced in May 2016. Similar to Tacrolimus IR, Aequus splits revenues of this product with its partner in a tiered structure.

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

PRVistitan™, which was approved by Health Canada in 2014, is currently the only marketed version of 0.03% bimatoprost ophthalmic solution in Canada for this indication. Since its launch, and with the support of Aequus' promotional efforts, Vistitan™ has been successfully listed among 90% of private payor groups as well as a benefit under key provincial formularies, including the Ontario Drug Benefit Plan, Alberta Health and Manitoba Health.

ZEPTO® PRECISION PULSE CAPSULOTOMY SYSTEM

The most recently announced commercial product, Zepto®, was launched by Aequus on June 1, 2018. Zepto provides consistent, high quality anterior lens capsulotomies during cataract surgery in a convenient, cost-effective, disposable format. One of the key features is a collapsible super-elastic nitinol capsulotomy ring element with micron scale elements to create the unique and strong Zepto capsulotomy edge. It has a clear silicone suction cup to enable suction and generate Zepto's proprietary capsulotomy action that allows Zepto capsulotomies on the patient's individual visual axis. The AMA has recently given a category III code in the U.S., as they see the distinctive application and benefit of aligning on the patient's own visual axis.

Zepto integrates seamlessly into the routine steps of cataract surgery with phacoemulsification. The surgeon does not need to alter his or her normal routine. Instead of capsulorrhexis forceps or a cystitome, the surgeon simply reaches for Zepto. Zepto has been used in thousands of cataract surgeries in Asia, Europe, and Central America since February

2017, and most recently in the US since August 2017.

There are currently over approximately 300,000 cataract cases per year in Canada. Aequus intends to initially target the premium intraocular lens market and the more challenging cases, which are estimated to represent over 20% of cataract cases performed each year.

TACROLIMUS IR

Aequus began promotional activities for Tacrolimus IR in December, 2015 and receives a tiered revenue split on incremental sales of the product over the established baseline set prior to promotion.

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

Aequus has been successful in growing market share for Tacrolimus IR in Canada since the initiation of its promotional efforts, and in March 2018, was awarded a three-year contract with Sigma Sante, one of the largest healthcare group purchasing organizations ("**GPO**") in Quebec and the final GPO in the province to list this first-to-market, generic version of Tacrolimus IR.

DEVELOPMENT PRODUCT UPDATES

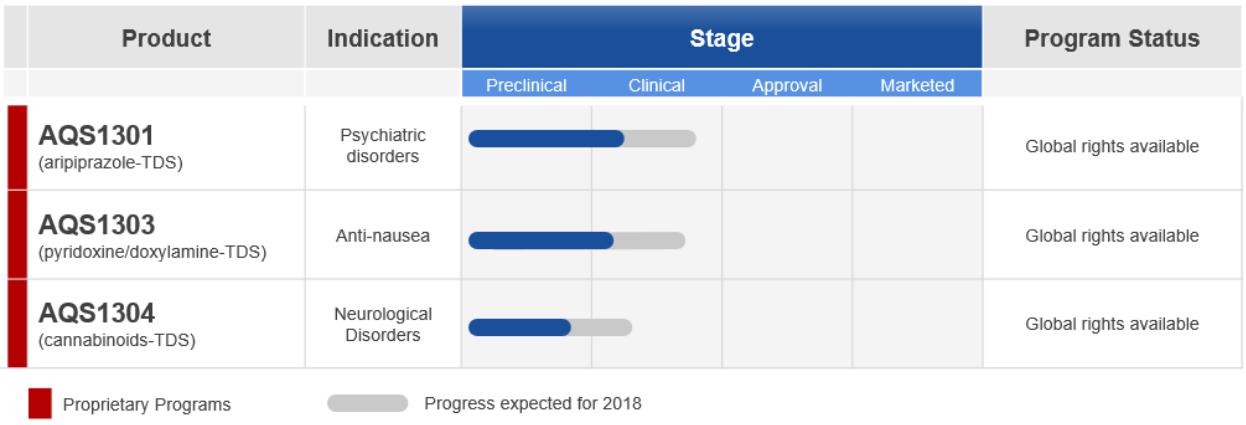


Figure 2. Aequus' Development Pipeline

AQS1303 – Long-acting transdermal pyridoxine / doxylamine

Key Highlights

- The combination of pyridoxine / doxylamine currently approved is first-line therapy and the only on-label intervention for nausea and vomiting of pregnancy ("**NVP**") dosed several times per day;
- Aequus' transdermal alternative provides a non-oral and long-acting alternative to the oral form;
- Initial Proof of Concept clinical study successfully completed in healthy volunteers;
- FDA pre-IND completed in early 2018 with positive feedback confirming approval via the 505(b)(2) accelerated approval pathway in the United States;
- Corium will utilize its Corplex™ transdermal technology to optimize the product presentation for clinical testing and will be the exclusive clinical and commercial manufacturer for AQS1303.

Product Overview

Pyridoxine/doxylamine is currently marketed as Diclegis® (United States)/Diclecitin® (Canada) for the treatment of NVP, as an oral tablet dosed up to four times per day. Diclegis is the only FDA approved medication for morning sickness in pregnant women and in 2017, reached sales in the United States of approximately US$186 million. A long-acting transdermal form of pyridoxine/doxylamine is being developed by Aequus to address the risk of missed doses due to emesis (vomiting) and provide consistent symptomatic relief.

Aequus has demonstrated the current formulation can deliver the flux profile *in-vitro* required for once-daily and up to seven days of therapeutic doses. Aequus completed a Proof of Concept clinical study in September 2017 with results suggesting that sustained delivery of therapeutics levels of the active ingredients through the skin over a multi-day period is possible with the current formulation. The formulation was well tolerated with no serious adverse events reported.

Aequus received positive pre-IND feedback from the FDA, confirming it will likely follow a 505(b)(2) pathway in the United States for AQS1303 approval, which would include a pharmacokinetic bridging strategy, to allow bridging to the safety and clinical pharmacology information from Diclegis®, and a single clinical efficacy study, would likely be acceptable for an NDA submission. The FDA also outlined additional standard studies required of a transdermal patch to evaluate the local safety and to ensure that consistent and predictable dosing is achieved over the dosing period.

Aequus has filed an international patent application with the USPTO that covers transdermal extended-release formulations of the combination of doxylamine and pyridoxine. During Fiscal 2017, the Company advanced the patent application for AQS1303 with PCT national stage filings in the European Region, Canada and Israel, in addition to the U.S.; Aequus owns the worldwide rights to the formulations described in the patent application.

AQS1304 - Medical cannabis program

Aequus has initiated a research program of cannabinoid-based therapeutics targeting neurological disorders. In 2016, Health Canada provided patients in Canada the ability to access cannabis for medical purposes when recommended by their physician. There are insufficient data, however, for proper therapeutic treatment protocols regarding the proper dosage and frequency for patients dealing with a wide variety of symptoms and disease areas. Aequus completed a survey that confirms the medical need for improved clinical trial data supporting safety and efficacy of medical cannabis, reliability of dose delivery systems, high quality data collection tracking real world clinical outcomes, physician education, and quality controlled ingredients.

Aequus has formed the following collaborations and steps forward in connection with this program:

- In March 2017, Aequus acquired an exclusive world-wide license to a transdermal patch formulation containing cannabinoids for use in the treatment of epilepsy, Multiple Sclerosis and certain other neurological disorders from TRPL;
- In May 2017, Aequus completed a needs assessment study with over four hundred physicians to validate and select a medical cannabis target product profile that is best suited for the needs of patients;
- In June 2017, Aequus and CDRD entered into a broad research collaboration to establish pre-clinical safety and efficacy of select cannabinoid-based therapeutics targeting certain neurological movement disorders;
- In August 2017, Aequus formed a collaboration with Scientus to be the development and commercial supplier of specific cannabinoid extracts, with an option for Scientus to co-fund the development of a cannabinoid containing transdermal formulation that would be designed and optimized to address certain neurological disorders;
- In August 2017, Aequus entered into a collaboration with Ehave to access Ehave's bioinformatics platform, providing cost effective and clinically relevant data collection in Aequus' anticipated clinical trials in the medical cannabis regulatory regime.
- In January 2018, Aequus announced a collaboration with CannaRoyalty Corp. ("**CannaRoyalty**") to advance a suite of cannabis-based therapies targeting neurological disorders into clinical trials in Canada, in collaboration with Canadian doctors and key opinion leaders.

Out-Licensing Activities

Aequus continues to pursue development collaborators and marketing partners for its internal programs in markets outside of Canada, particularly for AQS1303.

OVERALL PERFORMANCE

The Company started to generate revenue from its commercial platform during the year ended December 31, 2016. Aequus expects its operating losses to continue as it continues to build its commercial platform and invests in its development pipeline, including the product advancement of AQS1303 and its potential program in medical cannabis.

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

DISCUSSION OF OPERATIONS

Aequus recorded a net loss of $666,243 in the three months ended June 30, 2018 ("**Q2 2018**") compared to a loss of $1,277,262 during the three months ended June 30, 2017 ("**Q2 2017**"). The Company recorded a loss of $1,482,727 in the six months ended June 30, 2018 ("**YTD 2018**") and $2,290,695 in the six months ended June, 2017 ("**YTD 2017**"). During Q2 2018, the $611,019 or 48% decrease in net loss was primarily due to a 103% increase in sales in Q2 2018 when compared to Q2 2017 and a 69% decrease in research and development activity between the respective quarters. Research and development spending in 2017 was higher than 2018 due to increased regulatory consulting for its internal development programs, and the execution of a Proof of Concept clinical study for AQS1303 that occurred during YTD 2017.

During YTD 2018, the $807,968 or 35% decrease in net loss was primarily due to a 57% increase in sales in YTD 2018 compared to YTD 2017 and a decrease in research and development activity in the respective quarters. Research and development spending in 2017 was higher than 2018 due to increased regulatory consulting for its internal development programs, and the execution of a Proof of Concept clinical study for AQS1303.

The following table provides an overview of the financial results in Q2 2018 and YTD 2018 as compared to those in Q2 2017 and YTD 2018:

	Three Months Ended June 30			Six Months Ended June 30		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Revenue	$ 377,855	$ 186,586	$ 191,269	$ 752,855	$ 479,588	$ 273,267
Operating expenditures:						
Research and development	179,963	581,670	(401,707)	372,930	979,943	(607,013)
Sales and marketing	363,018	359,945	3,073	701,465	709,090	(7,625)
General administrations	503,799	623,317	(119,518)	1,163,169	1,182,956	(19,787)
	1,046,780	1,564,932	(518,152)	2,237,564	2,871,989	(634,425)
Loss before other income	(668,925)	(1,378,346)	709,421	(1,484,709)	(2,392,401)	907,692
Other income	2,685	101,084	(98,402)	1,982	101,706	(99,724)
Net loss	$(666,243)	$(1,277,262)	$ 611,019	$(1,482,727)	$(2,290,695)	$ 807,968

Revenues

The Company received revenues by providing promotional services to sell third party owned products, Tacrolimus IR and [PR]Vistitan™, that were launched in December 2015 and April 2016, respectively. [PR]Vistitan™ revenues are expected to continue to increase in the current fiscal year as it continues to penetrate market share held by the branded equivalent and similar medications within the class. Tacrolimus IR sales may be more volatile in 2018 due to competitive dynamics. This volatility is expected to be offset by new revenues from Zepto®, which are expected the second half of 2018.

Revenue during Q2 2018 was $377,855 (Q2 2017 - $186,586) an increase of 103% compared to the same period last year. Revenue during YTD 2018 was $752,855 (YTD 2017 - $479,588) an increase of 57% over revenues in the same period last year. The $191,269 increase in quarterly revenues and the $273,267 increase in six month revenues is

primarily attributable to increased promotional activities for both products focused in markets with positive market access and reimbursement listings.

Due to the early stage nature of the Company, management assesses the impact of inflation and specific price changes to the company's total revenue to not be measurable at this time.

Research and Development Expenses

The Company incurred research and development ("**R&D**") expenses of $179,963 in Q2 2018 as compared to $581,670 in Q2 2017. The primary factors impacting the $401,707 reduction in quarterly expense related to consulting and subcontracted R&D services. There were $65,404 less consulting fees in Q2 2018 relative to Q2 2017 as less regulatory work was required for AQS1301 and AQS1303 Pre-IND related work. The main development work in Q2 2018 was the advancement and optimization of AQS1303 in preparation for clinical studies. The costs of which are being realized by its partner, Corium, in exchange for exclusive manufacturing of the product. This resulted in a $362,058 decrease, or 98% reduction in Q2 2018 cost relative to Q2 2017.

The Company incurred research and development ("R&D") expenses of $372,930 in YTD 2018 as compared to $979,943 in YTD 2017. The decrease was primarily attributable to decreased subcontractor costs. YTD 2017 included R&D subcontractor work related to the completion of the initial single dose exposure Proof of Concept study for AQS1301, preclinical studies for AQS1302 and AQS1303, and the initiation of clinical trial material development for AQS1303. There were $32,602 less consulting costs in YTD 2018 relative to YTD 2017 as less regulatory consulting work was required during Q2 2018.

There was also $19,657 less patent and intellectual property related costs in YTD 2018 relative to YTD 2017. During YTD 2017 Aequus expanded the patent portfolio for AQS1301 in China, to bring the total number of patents issued/allowed to seven major countries or regions to date, namely the United States, Russia, Mexico, Japan, Australia and Canada, with several other major markets pending.

The following table summarizes the Company's research and development expenditures in Q2 2018 as compared Q2 2017:

	Q2 2018	Q2 2017	Change	YTD 2018	YTD 2017	Change
Consulting	$ 95,864	$ 161,268	(65,404)	$ 206,852	$ 239,455	(32,602)
Office and other	397	—	397	397	—	397
Patent and intellectual property	8,335	21,420	(13,085)	35,299	54,956	(19,657)
Management, wages and related	29,339	20,319	9,020	52,971	52,612	358
Share-based payments	23,283	5,857	17,426	47,078	13,008	34,070
Subcontract research and development	8,297	370,355	(362,058)	8,287	616,346	(608,059)
Travel and accommodation	14,448	2,451	11,997	22,036	3,566	18,470
	$ 179,963	$ 581,670	(401,707)	$ 372,930	$ 979,943	(607,013)

Sales and Marketing Expenses

Aequus incurred sales and marketing expenses of $363,018 in Q2 2018 compared to $359,945 in Q2 2017, an increase of $3,073. The changes in sales and marketing expenditures in Q2 2018 compared to Q2 2017 were primarily impacted by the following items:

- Advertising and promotion increased by $23,873 when Q2 2018 is compared to Q2 2017. This was primarily due to increased marketing activity related to the preparation for new products and then launch of Zepto in June 2018.
- Consulting fees decreased by $17,525 when Q2 2018 is compared to Q2 2017. Q2 2017 costs includes commercial program start up marketing costs which were no longer required in Q2 2018.
- Printing and other sales related expenses decreased by $17,994 when Q2 2018 is compared to Q2 2017. The $18,997 Q2 2017 costs includes commercial program early stage marketing costs which were no longer required in Q2 2018.
- Salesforce team costs increased by $37,958 when Q2 2018 is compared to Q2 2017. This was primarily due salesperson vacancies in Q2 2017 that were filled in Q2 2018. Increased sales activity related to the launch of Zepto was also a factor.
- Share-based payments decreased by $12,274 from Q2 2018 to Q2 2017 as there were fewer vested stock options in Q2 2018 relative to Q2 2017.

- Travel and accommodation decreased by $13,438 or 26% to $38,299 in Q2 2018 compared to $51,737 in Q2 2017. The Company decreased certain sales and promotion related travel associated with Tacrolimus IR and [PR]Vistitan™ in Q2 2018.

Sales and marketing expenses were $701,465 during the six months ended June 30, 2018 as compared to $709,090 in Q2 2017, a decrease of $7,625. The changes in sales and marketing expenditures were primarily impacted by the following items:

- Advertising and promotion increased by $29,573 from $14,340 in the YTD 2017 relative to $43,913 in YTD 2018 primarily due to the launch of Zepto in June 2018.
- Consulting fees decreased by $41,450 in the YTD 2018 to YTD 2017. This was primarily due to residual costs in YTD 2017 associated with the launch activities for [PR]Vistitan™ and Tacrolimus IR, resulting in lower consulting costs in YTD 2018. There were no similar program costs in YTD 2018.
- Printing and other sales related expenses decreased by $32,785 when YTD 2018 is compared to YTD 2017. The $34,634 YTD 2017 costs includes updating certain marketing materials which were no longer required in YTD 2018.
- Salesforce team costs covering promotional and marketing activities for Tacrolimus IR and [PR]Vistitan™ was $357,285 and 289,207 for YTD 2018 and YTD 2017, respectively. The $68,078 increase was partially due to salesperson vacancies in YTD 2017 that were filled in YTD 2018. The increase in YTD 2018 also related to increasing sales coverage in markets with positive reimbursement listings in the first part of 2018.
- Share-based payments decreased by $26,660 from YTD 2018 to YTD 2017 as there were fewer vested stock options during the six months ended June 30, 2018 relative to the same period last year.

The following table summarizes the Company's sales and marketing expenditures in Q2 2018 as compared to Q2 2017:

	Q2 2018	Q2 2017	Change	YTD 2018	YTD 2017	Change
Advertising and promotion	$ 38,213	$ 14,340	$ 23,873	$ 43,913	$ 14,340	$ 29,573
Consulting	15,000	32,525	(17,525)	18,600	60,050	(41,450)
Depreciation and amortization	47,279	45,916	1,363	93,196	91,833	1,363
Printing and other expenses	1,003	18,997	(17,994)	1,849	34,634	(32,785)
Management, wages and related	35,102	33,992	1,110	69,120	67,982	1,138
Share-based payments	11,767	24,041	(12,274)	22,478	49,138	(26,660)
Salesforce	176,355	138,397	37,958	357,285	289,207	68,078
Travel and accommodation	38,299	51,737	(13,438)	95,024	101,906	(6,882)
	$ 363,018	$ 359,945	$ 3,073	$ 701,465	$ 709,090	$ (7,625)

General Administration Expenses

General administration expenses were $503,799 during Q2 2018 as compared to $623,315 in Q2 2017, a decrease of $119,516 or 19%. The decrease was primarily due to a decrease in consulting related expenses. These changes in general administration expenditures were primarily impacted by the following items:

- Consulting fees decreased by $84,248 or 48% because of decreased marketing activity during Q2 2018.
- Legal and professional fees decreased by $28,006 or 32% in Q2 2018 compared to Q2 2017 primarily due to variations in business development activities.

General administration expenses were $1,163,169 during the six months ended June 30, 2018 as compared to $1,182,956 in Q2 2017, an decrease of $19,787 or 2%. The changes in general administration expenditures were primarily impacted by the following items:

- Consulting fees increased by $178,311 or 63% because of project costs related to the marketing and branding work at the corporate level.
- Legal and professional fees decreased by $69,506 or 45% in during the six months ended June 30, 2018 when compared to the same period last year, primarily due to variations in business development activities.
- Management, wages and related expense decreased by $79,522 or 27% because of changes to contracts related to management fees.

- Share-based payments decreased by $29,005 comparing the six months ended June 30, 2018 and 2017. This was due to a higher amount of options granted and vesting in the preceding period where only 30,000 options were granted and fewer options were vested in YTD 2018 as compared to YTD 2017.

The following table summarizes the Company's general administration expenditures in Q2 2018 and YTD 2018 compared Q2 2017 and YTD 2017:

	Q2 2018	Q2 2017	Change	YTD 2018	YTD 2017	Change
Consulting	$ 91,221	$ 175,469	$ (84,248)	$ 459,597	$ 281,286	$ 178,311
Legal and professional fees	58,994	87,000	(28,006)	86,588	156,094	(69,506)
Other general administration	96,865	104,388	(7,523)	165,465	193,454	(27,989)
Regulatory, transfer agent & listing	24,169	18,758	5,411	44,910	33,359	11,551
Management, wages and related	114,931	118,494	(3,563)	216,500	296,022	(79,522)
Share-based payments	34,280	38,129	(3,849)	70,766	99,771	(29,005)
Travel and accommodation	83,339	81,079	2,260	119,343	122,970	(3,627)
	$ 503,799	$ 623,317	$ (119,518)	$1,163,169	$ 1,182,956	$ (19,787)

QUARTERLY FINANCIAL INFORMATION

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

	Quarter Ended			
	June 20, 2018	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**
	("Q2 2018")	**("Q1 2018")**	**("Q4 2017")**	**("Q3 2017")**
Revenue	$ 377,855	$ 375,000	$ 368,682	$ 291,154
Research and development expenditures	179,963	192,968	19,590	415,173
Sales and marketing expenditures	363,018	338,447	363,870	310,163
General administration expenditures	503,799	659,370	629,012	532,085
Other income (loss)	2,682	(700)	3,020	15,305
Net loss for the period	(666,243)	(816,485)	(640,770)	(950,962)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.01)	(0.01)

	Quarter Ended			
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**
	("Q2 2017")	**("Q1 2017")**	**("Q4 2016")**	**("Q3 2016")**
Revenue	$ 186,586	$ 293,002	$ 166,901	$ 300,549
Research and development expenditures	581,670	398,273	295,115	371,824
Sales and marketing expenditures	359,945	349,145	419,763	346,026
General administration expenditures	623,317	559,639	639,872	703,274
Other income (loss)	101,084	622	19,156	31,043
Net loss for the period	(1,277,262)	(1,013,433)	(1,168,693)	(1,089,532)
Basic and diluted loss per common share	(0.02)	(0.01)	(0.02)	(0.02)

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

- Revenue was first recorded in Q1 2016. The Company generated revenue from the promotional and marketing profit share arrangement on sales of Tacrolimus IR, which launched in December 2015, and its second commercial product, PRVistitan™, which launched in April 2016. Sales for these two products have generally continued to increase over the last five quarters. The Company expects this upward trend to continue for PRVistitan™ in the current fiscal year as it continues to penetrate market share held by the branded equivalent and similar medications within the class. Tacrolimus IR sales may be more volatile in 2018 due to competitive dynamics. This volatility is expected to be offset by new revenues from Zepto® expected in Q3 2018.

- Research and development expenditures trended upwards until Q3 2017 as Aequus completed formulation development and advanced AQS1303 through Proof of Concept clinical studies. These expenditures fluctuated more significantly in certain quarters due to the costs associated with Proof of Concept clinical studies of AQS1301, which included the follow-on study which started in Q4 2016 and completed in Q1 2017. Furthermore, the development of clinical trial materials and the execution of the Proof of Concept clinical study for AQS1303 in Q2 and Q3 2017, the preparations for the AQS1301 Pre-IND meeting in Q1 and Q2 2017 as well as market research carried out in Q2 2017. In Q4 2017 and Q1 2018, the Company prepared for the Pre-IND meeting for AQS1303 and was active in establishing collaborative partnerships in anticipation of advancing its medical cannabis programs.

- Sales and marketing expenses were trending down from Q4 2016 to Q3 2017 as the Company completed the marketing launch of Tacrolimus IR and PRVistitan™ in Canada. Spending stabilized following the initial launch period but are expected to increase in the next nine months as Zepto is launched into the Canadian marketplace and sales start in Q3 2018.

- General administration expenses fluctuated based on corporate finance and business development activities. In addition to new strategic relationships starting in Q2 2017 related to the Cannabis programs, the company signed a Canadian commercial agreement with Mynosys to distribute and commercialize Zepto and are exploring other potential collaborations on an ongoing basis.

- Other income included a $89,000 one-time government grant which was awarded in Q2 2017.

Liquidity and Capital Resources

	Six Months Ended June 30		
	2018	2017	Change
Cash used in operating activities	(993,475)	(1,894,627)	901,152
Cash used in investing activities	(5,249)	(48,883)	43,634
Cash provided by financing activities	284,730	4,561,307	(4,276,577)
Net (decrease) increase in cash and cash equivalents	(713,994)	2,617,796	(3,331,791)

Cash used in operating activities is comprised of net loss, add-back of non-cash expenses, and net change in non-cash working capital items. Cash used in operating activities decreased to $993,475 for the six months ended June 30, 2018 from $1,894,627 in 2017. This decrease of $901,152 is primarily due to net loss decreasing by $807,968 and a $110,500 timing difference related to non-cash working capital changes related to accounts payable between the periods.

Cash used in investing activities during the six months ended June 30, 2018 related to IT hardware purchases and during the six months ended June 30, 2017 Company related to upgrading the office telephone equipment.

Cash provided by financing activities decreased by $4,276,577 in during the six months ended June 30, 2018 as compared to the amount reported to June 30, 2017. On January 31, 2018 the Company closed a financing of $300,000. On March 13, 2017, the Company closed a public offering of units (the "**Units**") at a price of $0.30 per Unit, for aggregate gross proceeds to the Company of $5,175,000, pursuant to the terms of an underwriting agreement dated March 6, 2017 between the Company and Canaccord Genuity Corp.

As of June 30, 2018, the Company had working capital of $441,281 compared to working capital of $1,348,147 as of December 31, 2017. The Company anticipates receiving cash proceeds from the exercise of options, warrants, public offerings and private placements, however, the Company cannot predict the timing or amount of additional options and warrants that may be redeemed, if any. Subsequent to June 30, 2018 the Company raised $1,541,750 net of finders fees through the issuance of 7,875,000 common shares and 3,937,500 share purchase warrants.

The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend upon equity capital to finance product development. The Company may pursue debt financing in the medium term, if it is able to procure such debt on terms more favourable than the available equity financing, however, there can be no assurance the Company will be able to obtain any required financing in the future on acceptable terms.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and the success of any new clinical trials. Any quoted market for the Company's shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

During the year ended December 31, 2017, the Company renewed the lease for five years ending November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of $11,635 in and operating costs, currently estimated at $7,230, on a monthly basis starting December 1, 2018. The Company has entered into sublease agreements of the space providing monthly rental revenue of $5,700 to offset rent expense. The basic rent commitment per year is as follows: 2019 – $140,147; 2020 – $143,827; 2021 – $147,507; 2022 – $151,187; 2023 – $141,680.

Use of Proceeds from Financing

A comparison of the use of proceeds disclosed in the prospectus on March 6, 2017 to management's current estimate of the use of proceed is as follows:

	Proposed Use of Proceeds	**Estimated Unaudited Actual Use of Proceeds to August 27, 2018**
Development program spending for AQS1302, AQS1303 and cannabinoid related program	$2,150,000	$791,000
Regulatory and intellectual property consulting for the Company's internal programs	350,000	382,000
Sales and marketing, business development, general administration and working capital	2,152,750	3,479,750[(2)]
Total	**$4,652,750[(1)]**	**$4,652,750[(3)]**

Notes:

(1) The prospectus supplement dated March 6, 2017 discloses a total use of proceeds of $4,025,000, after deducting the Underwriter's fee and estimated expenses of the 2017 Offering, which assumed no exercise of the over-allotment option. The over-allotment option was fully exercised and as a result, the estimated net proceeds received from the 2017 Offering was $4,652,750 after deducting the Underwriter's fee and estimated expenses of the 2017 Offering.

(2) This item is higher than was expected due to the Company having a lower sales in the last 18 months than originally estimated and higher actual working capital deficit than was estimated at the time of filing of the March Prospectus. This amount does not take into account cash from revenues earned but not received and expenditures incurred but not yet paid for the period from July 1, 2018 to August 27, 2018.

(3) Actual costs of the 2017 Offering, including the Underwriter's fee and other expenses relating to the 2017 Offering, were $622,905 versus the estimate of $522,250 due to legal fees.

The amount spent on product development from March 13, 2017 to June 30, 2018 was $791,000. Included in this amount were expenses towards advancing the medical cannabis program, mainly involving business development efforts associated with various strategic partnerships and market research to validate the initial product profile, medical need and commercial strategy. The Company expects to initiate studies for its medical cannabis program in the coming months, following the completion of several collaborative partnerships in this field. In other areas of product development, the planned pre-IND meeting with the FDA for AQS1301, Aequus' transdermal long acting patch for aripiprazole, was successfully completed in August 2017, confirming the abbreviated 505(b)(2) pathway would be acceptable for approval in the US. No additional development work was completed for AQS1302 during the period

due to changes in market dynamics which have lead Aequus to no longer advance this program.

During the period, the Company incurred costs of $760,000 for its long acting transdermal anti-nausea patch, AQS1303, related expenses. These include the execution of a Proof of Concept clinical study for AQS1303, including expenses related to the manufacturing of clinical materials. The Company announced positive results from this study in September 2017 and subsequently incurred regulatory consulting costs for the preparation and meeting with the FDA for a pre-IND meeting related to this product.

Additional expenses related to sales and marketing were in support of strengthening the Company's presence in specific territories with positive reimbursement, and business development activities leading to additional potential products for the commercial arm, such as Santen and Mynosys.

On January 31, 2018, the Company completed a prospectus equity financing of 1,000,000 units of the Company at a price of $0.30 per unit for total proceeds of $300,000. The use of proceeds were expected to be used for general corporate expenditures, including work related to marketing and branding. As at August 27, 2018, the project was completed and all funds have been expended.

OUTSTANDING SHARE CAPITAL

As of August 27, 2018, there were no Class A Preferred shares without par value in the capital of the Company issued and outstanding, 80,436,970 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	Number Outstanding as of August 27, 2018	Number Outstanding as of June 30, 2018
Common Shares issued and outstanding	80,436,970	72,561,970
Class A Preferred Shares	Nil	Nil
Options[(1)]	8,098,278	7,748,278
Warrants[(3)]	13,562,500	9,625,000
Broker Warrants[(4)]	1,028,750	862,500

Notes:

(1) Of the 8,098,278 options outstanding, 5,671,072 are vested and exercisable at a weighted average price of $0.35 per Common Share. The remaining 2,467,206 options are not vested and have a weighted average price of $0.24 per Common Share. 350,000 of these options were issued to a director subsequent to June 30, 2018.
(2) Subsequent to June 30, 2018 the Company issued 7,875,000 units at a price of $0.20 per share for total proceeds of $1,575,000. Each unit consists of one common share and one-half share purchase warrant.
(3) In conjunction with financings subsequent to June 30, 2018, the Company issued 3,937,500 share purchase warrants at an exercise price of $0.30.
(4) In conjunction with financings subsequent to June 30, 2018, the Company issued 166,250 share purchase warrants at an exercise price of $0.30.

In October 2016 the Company entered into a service agreement with Camargo where US$192,000 was to be paid in common shares as defined milestones were achieved. As of August 27, 2018 the Company has issued 650,021 shares for $180,745 of services received. The contract is completed as of August 27, 2018.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Management wages and related	$ 168,300	$ 169,158	$ 324,107	$ 359,663
Share based payments for directors & officers	30,294	47,874	77,372	95,954
	$ 198,594	**$ 217,032**	**$ 401,479**	**$ 455,617**

[i] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("NVI") and Doug Janzen. Mr. Janzen is the Chief Executive Officer of the Company. Northview Ventures Inc. was compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017 and then $15,000 per month thereafter. During the six months ended June 30, 2018, NVI received $90,000 in compensation (2017 - $75,000).

[ii] Effective December 1, 2016, the Company entered into a consulting agreement with Crecera Consulting Inc. ("Crecera") and Anne Stevens. Ms. Stevens is the Chief Operating Officer of the Company. Crecera was compensated at a monthly rate of $12,000 from December 1, 2016 to March 31, 2017 and then $12,500 per month thereafter. During the six months ended June 30, 2018, Crecera received $nil (2017 - $36,000) in compensation.

Effective October 1, 2017 the contract with Crecera was terminated and Anne Stevens entered into an employment contract with the Company compensated at a monthly rate of $12,500 for total salaries of $75,000 for the six months ended June 30, 2018 (2017 – nil).

[iii] The Company entered into a consulting service agreement with Mr. Ian Ball who serves as the Chief Commercial Officer of the Company, effective July 28, 2015. Pursuant to this consulting agreement with a term to July 31, 2019, Mr. Ball is compensated at a monthly rate of $12,000. During the six months ended June 30, 2018, Mr. Ball charged total consulting fees of $72,000 (2017 - $72,000).

As of June 30, 2018, the Company has included in its accounts payable and accrued liabilities $14,098 (December 31, 2017 - $17,967) due to Mr. Ball.

[iv] 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, Dr. McAfee was compensated at a daily rate of US$1,000. During the six months ended June 30, 2018, Dr. McAfee charged total consulting fees of $37,561 (2017 - $39,913).

As of June 30, 2018, the Company has included in its accounts payable and accrued liabilities $5,533 (December 31, 2017 - $3,764) due to Dr. McAfee.

[v] The Company entered into a consulting service agreement with Ann Fehr and Fehr & Associates on July 22, 2016. Mrs. Fehr is the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $100 per hour. Fehr & Associates also provides a part time controller and book-keeping services to the Company. During the six months ended June 30, 2018, Fehr & Associates charged total consulting fees of $49,546 (2017 - $54,250) for CFO and outsourced accounting services.

As of June 30, 2018, the Company has included in its accounts payable and accrued liabilities $16,799 (December 31, 2017 - $5,053) due to Fehr & Associates.

The amounts owing to the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment.

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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Management, General & administration	$ 61,875	$ 61,875	123,750	$ 145,125
Management, Research & development	20,625	20,625	41,250	48,375
Consulting fees, General & administration	46,602	43,393	74,746	79,451
Consulting fees, Research & development	15,798	19,865	37,561	39,913
Consulting fees, Sales & marketing	23,400	23,400	46,800	46,800
Share-based payments, General & Administration	17,470	22,494	35,487	39,376
Share-based payments, Research & Development	13,177	1,838	26,866	4,969
Share-based payments, Sales & marketing	6,935	32,672	15,019	51,609
	$ 205,882	**$ 226,162**	**401,479**	**$ 455,618**

Other

During the year ended December 31, 2017, the Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates to receive cost recovery of $500 and $3,150 per month for shared office space. During the six months ended June 30, 2018 the Company received $21,900 as a recovery of rent expense (2017 – 18,000).

PROPOSED TRANSACTIONS

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

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

Changes in Accounting Policies - Revenue from Contracts with Customers

The Company adopted the requirements of IFRS 15 as of January 1, 2018. This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue — Barter Transactions Involving Advertising Services.

The main features introduced by this new standard compared with predecessor IFRSs are as follows:

Revenue is recognized based on a five-step model:

1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

Changes in Accounting Policies - Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Amounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost.

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.
Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

(iii) Impairment of financial assets at amortized cost.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

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 and expects no significant effect on the Company's consolidated financial statements when adopted.

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.

Financial Instruments

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

The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are 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.

During the six months ended June 30, 2018 there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

RISKS

Current and prospective shareholders should specifically consider various factors, including the risks outlined below and under the heading "*Risk Factors*" in the Company's annual information form filed on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties, including the risks listed below, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein.

Volatility of Market Price

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common

Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

Positive Return in an Investment in the Common Shares of the Company is Not Guaranteed

There is no guarantee that an investment in the Company will earn any positive return in short term or long term. A purchase of the shares involves a high degree of risk and should be undertaken only by purchasers whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the Common Shares is appropriate only for purchasers who have the capacity to absorb a loss of some or all of their investment.

Dilution

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and Class A preferred shares. The Company's shareholders do not have pre-emptive rights in connection with any future issuances of securities by the Company. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of stock options under the Company's stock option plan and upon the exercise of outstanding warrants.

Negative Cash Flow from Operations

During the fiscal year ended December 31, 2017 and 2016, the Company had negative cash flows from operating activities. To the extent that the Company has negative cash flow in any future period, the net proceeds from future financings may be used to fund such negative cash flow from operating activities.

Development Costs and Timing

Aequus may be unable to initiate or complete development of its product candidates on Aequus' currently expected timeline, or at all. The timing for the completion of the studies for Aequus' product candidates will require funding beyond the Company's existing cash and cash equivalents. In addition, if regulatory authorities require additional time or studies to assess the safety or efficacy of a product candidate, Aequus may not have or be able to obtain adequate funding to complete the necessary steps for approval for Topiramate XR, Oxcarbazepine XR or its product candidates. Additional delays may result if the FDA or other regulatory authority recommends non-approval or restrictions on approval. Studies required to demonstrate the safety and efficacy of Aequus' product candidates are time consuming, expensive and together take several years or more to complete. In addition, approval policies, regulations or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. Aequus has not obtained regulatory approval for any product candidate and is possible that none of its existing product candidates or any product candidates it may seek to develop in the future will ever obtain regulatory approval. Delays in regulatory approvals or rejections of applications for regulatory approval in Canada, the United States, Europe, Japan or other markets may result from a number of factors, many of which are outside of Aequus' control.

The lengthy and unpredictable approval process, as well as the unpredictability of future clinical trial results, may result in Aequus' failure to obtain regulatory approval to market any of its product candidates, which would significantly harm Aequus' business, results of operations and prospects.

Commercial Platform Development

Aequus has been building a commercial platform since the Company's acquisition of TeOra in July 2015. The cost of establishing and maintaining that infrastructure may exceed the cost effectiveness of doing so. In order to market any products, Aequus must maintain, and may further expand, its sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. If Aequus does not have adequate sales, marketing and distribution capabilities, whether independently or with third parties, Aequus may not be able to generate sufficient product revenue and promotional service revenue to become profitable. Aequus competes with many companies that have extensive and well-funded sales and marketing operations. Without an internal commercial organization or the support of a third party to perform sales and marketing functions, Aequus may be unable to compete

successfully against these more established companies. Furthermore, Aequus' relationships with its third party suppliers are subject to various risks and uncertainties that are outside of its control, including agreements with third party suppliers not being renewed or being terminated in accordance with their terms and supply and reputational risks in the event that a third party supplier is in default under the provisions of such agreement.

The Company has been named as a respondent in an application for judicial review filed April 25, 2017, regarding the decision of the Minister of Health to designate [PR]Vistitan™ as being interchangeable with Lumigan RC on Alberta's drug benefit list. During the year ended December 31, 2017, the Company has been removed as a respondent and is no longer named in the application. The Company does not anticipate this claim to have a material impact over its financial statements or operations in any way.

Change in Laws, Regulations, and Guidelines Relating to Marijuana and Related Issues

The Company's operations are subject to a variety laws, regulations and guidelines including relating to the manufacture, management, transportation, storage, and disposal of medical marijuana as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Approval policies, laws, regulations and guidelines may change during the course of a product candidate's clinical development and may vary among jurisdictions. Any delays in obtaining, or failure to obtain regulatory approvals, including at the pre-clinical, clinical or marketing stage, would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Dependence on Key Personnel

The Company strongly depends on the business and technical expertise of its management and it is unlikely that this dependence will decrease in the near term. Loss of the Company's key personnel could slow the Company's ability to innovate, although the effect on ongoing operations would be manageable as experienced key operations personnel could be put in place. As the Company's operations expand, additional general management resources will be required.

If the Company expands its operations, the ability of the Company to recruit, train, integrate and manage a large number of new employees is uncertain and failure to do so would have a negative impact on the Company's business plans.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers, or may be associated with other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the *Business Corporations Act* (British Columbia) (the "**BCBCA**") in dealing with conflicts of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the BCBCA. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

Intellectual Property

Our success depends on our ability to protect our proprietary rights and operate without infringing the proprietary rights of others; we may incur significant expenses or be prevented from developing and/or commercializing products as a result of an intellectual property infringement claim.

Our success will depend in part on our ability and that of our corporate collaborators to obtain and enforce patents and maintain trade secrets, both in the United States and in other countries.

The patent positions of biotechnology and biopharmaceutical companies, including us, is highly uncertain and involves complex legal and technical questions for which legal principles are not firmly established. The degree of future protection for our proprietary rights, therefore, is highly uncertain. In this regard there can be no assurance that patents will issue from any of the pending patent applications. In addition, there may be issued patents and pending applications owned by others directed to technologies relevant to our or our corporate collaborators' research, development and commercialization efforts. There can be no assurance that our or our corporate collaborators' technology can be developed and commercialized without a license to such patents or that such patent applications will not be granted priority over patent applications filed by us or one of our corporate collaborators.

Our commercial success depends significantly on our ability to operate without infringing the patents and proprietary rights of third parties, and there can be no assurance that our and our corporate collaborators' technologies and products do not or will not infringe the patents or proprietary rights of others.

There can be no assurance that third parties will not independently develop similar or alternative technologies to ours, duplicate any of our technologies or the technologies of our corporate collaborators or our licensors, or design around the patented technologies developed by us, our corporate collaborators or our licensors. The occurrence of any of these events would have a material adverse effect on our business, financial condition and results of operations.

Litigation may also be necessary to enforce patents issued or licensed to us or our corporate collaborators or to determine the scope and validity of a third party's proprietary rights. We could incur substantial costs if litigation is required to defend ourselves in patent suits brought by third parties, if we participate in patent suits brought against or initiated by our corporate collaborators or if we initiate such suits, and there can be no assurance that funds or resources would be available in the event of any such litigation. An adverse outcome in litigation or an interference to determine priority or other proceeding in a court or patent office; could subject us to significant liabilities, require disputed rights to be licensed from other parties or require us or our corporate collaborators to cease using certain technology or products, any of which may have a material adverse effect on our business, financial condition and results of operations.

ADDITIONAL INFORMATION

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