Aequus Pharmaceuticals Inc.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

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Independent Auditor's Report

To the Shareholders of
Aequus Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of Aequus Pharmaceuticals Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aequus Pharmaceuticals Inc. and its subsidiary as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

"Crowe MacKay LLP"

Chartered Professional Accountants
Vancouver, British Columbia
April 27, 2018

Aequus Pharmaceuticals Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	December 31, 2017 $	December 31, 2016 $
ASSETS			
Current			
Cash and cash equivalents		1,164,518	473,242
Amounts receivable		430,064	190,114
Prepaid expenses and deposit		120,401	140,197
		1,714,983	**803,553**
Property and equipment	5	34,975	45,958
Intangible assets	6	902,913	1,072,502
Deferred share-based payments	7	18,978	88,082
		956,866	**1,206,542**
Total assets		**2,671,849**	**2,010,095**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	366,836	744,411
Total liabilities		**366,836**	**744,411**
SHAREHOLDERS' EQUITY			
Share capital	8	17,095,063	12,606,882
Contributed surplus		2,956,312	2,522,737
Deficit		(17,746,362)	(13,863,935)
Total shareholders' equity		**2,305,013**	**1,265,864**
Total liabilities and shareholders' equity		**2,671,849**	**2,010,095**

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

Nature of operations and Going Concern [Note 1]
Commitments and Contingencies [Note 10]
Subsequent Events [Note 17]

These consolidated financial statements were approved for issue by the Board of Directors on April 27, 2017 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Chris Clark
Director

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

	Note	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Revenue		1,139,424	701,633
Expenses			
Research and development	12[a]	1,414,706	1,127,780
Sales and marketing	12[b]	1,383,123	1,767,364
General administration	12[c]	2,344,053	2,670,072
		5,141,882	5,565,216
Loss before other income (loss)		**(4,002,458)**	**(4,863,583)**
Other income (loss)			
Interest income		12,295	3,139
Income tax credit		—	50,721
Government grant		89,927	—
Foreign exchange gain (loss)		17,809	(2,332)
		120,031	**51,528**
Net loss and comprehensive loss		**(3,882,427)**	**(4,812,055)**
Basic and diluted loss per common share		**(0.06)**	**(0.10)**
Weighted average number of common shares outstanding – basic and diluted		**67,897,222**	**47,453,906**

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

Aequus Pharmaceuticals Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares		Subscriptions received	Contributed Surplus	Deficit	Total
	Number	**$**	**$**	**$**	**$**	**$**
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 8[b][i]]*	5,297,422	2,515,177	(719,575)	-	-	**1,795,602**
Issued for cash pursuant to a public financing *[note 8[b][ii]]*	9,146,400	2,458,186	-	-	-	**2,458,186**
Shares issued for services *[note 8[b][iii]]*	153,072	51,279	-	-	-	**51,279**
Share-based payments *[note 8 [e]]*	-	-	-	488,011	-	**488,011**
Net loss for the year	-	-	-	-	(4,812,055)	**(4,812,055)**
Balance, December 31, 2016	**54,151,021**	**12,606,882**	**-**	**2,522,737**	**(13,863,935)**	**1,265,684**
Issued for cash pursuant to a bought deal financing *[note 8[b][iv]]*	17,250,000	4,422,731	-	129,364	-	**4,552,095**
Shares cancelled pursuant to escrow agreement *[note 8[b][v]]*	(336,000)	-	-	-	-	-
Shares issued for services *[note 8[b][vi]]*	286,117	65,450	-	-	-	**65,450**
Share-based payments *[note 8 [e]]*	-	-	-	**304,211**	-	**304,211**
Net loss for the year	-	-	-	-	(3,882,427)	**(3,882,427)**
Balance, December 31, 2017	**71,351,138**	**17,095,063**	**-**	**2,956,312**	**(17,746,362)**	**2,305,013**

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

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

	Note	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
OPERATING ACTIVITIES			
Net loss for the year		(3,882,427)	(4,812,055)
Add items not affecting cash:			
Depreciation of property and equipment	5	17,631	2,812
Depreciation of intangible assets	6	169,589	169,589
Share-based payments	7 & 8[e]	373,315	675,041
Shares issued for services		65,450	51,279
		(3,256,442)	(3,913,334)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(239,950)	(95,805)
Prepaid expenses and deposit		19,796	(64,941)
Accounts payable and accrued liabilities		(335,340)	(391,338)
Cash used in operating activities		**(3,811,936)**	**(4,465,418)**
INVESTING ACTIVITIES			
Purchase of property and equipment	5, 15	(48,883)	—
Purchase of intangible assets	6	—	(478,940)
Cash used in investing activities		**(48,883)**	**(478,940)**
FINANCING ACTIVITY			
Issuance of common shares, net of issuance costs	8[b]	4,552,095	4,253,788
Cash provided by financing activity		**4,552,095**	**4,253,788**
Increase (Decrease) in cash and cash equivalents		**691,276**	**(690,570)**
Cash and cash equivalents, beginning of the year		473,242	1,163,812
Cash and cash equivalents, end of the year		**1,164,518**	**473,242**

Supplemental disclosure with respect to cash flow (Note 16)
The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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.

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

The Company has incurred losses and negative operating cash flows since its inception. As of December 31, 2017, the Company has accumulated a deficit of $17,746,362 (December 31, 2016 - $13,863,935) and working capital of $1,348,147 (December 31, 2016 - $59,142). Although it is difficult to predict future liquidity requirements, management believes the Company expects to have sufficient working capital to fund its operations until the third quarter of 2018. 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 the business, all of which cast substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to meet its long term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from the acquired business of Aequus Pharma (Canada) Ltd., formerly TeOra Health Ltd. ("**TeOra**"). On July 28, 2015, the Company completed its acquisition of TeOra, a privately held Canadian specialty pharmaceutical company (the "**TeOra Acquisition**") *[note 6[a]]*. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market a branded generic ophthalmology product within Canada. On September 30, 2015, the Company further expanded this exclusive promotional right to include a transplant product called Tacrolimus IR. The Company receives revenues based on agreed upon percentages of net sales. The Company started generating service revenue from Tacrolimus IR in the first quarter of 2016 and from ^{PR}Vistitan™ sales in the second quarter of 2016. The Company's longer term business strategy for generating cash flow is to successfully develop its later stage product pipeline through marketing agreements or product commercialization profits and engaging in development and commercial partnerships for one or more of its development pipeline products which would generate licensing revenues for the Company from territories outside of Canada.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board ("**IASB**") effective for the year ended December 31, 2017.

These Financial Statements were approved by the Company's Board of Directors on April 27, 2018.

[b] Basis of measurement

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

[c] Functional and foreign currency

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

[d] Significant accounting estimates and judgments

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

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

Critical Judgments

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

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

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Critical Judgments (continued)

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

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

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

Estimation Uncertainty

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

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

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

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of 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 of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

iv. Revenues are recognized based on a calculation of estimated profits using actual third party sales figures. Changes in estimates of revenues are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES

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

[a] Consolidation

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

[b] Financial instruments

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

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

[c] Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[d] Property and equipment

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

Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. One-half of the depreciation is recognized in the year of acquisition. Office furniture and equipment is depreciated over 5 years. Leasehold improvement is depreciated over the expected term of the lease. Website cost is depreciated over 3 years. Computer equipment is depreciated over 3 years.

[e] Intangible assets

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

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

[f] Impairment of assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[g] Research and development costs

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

[h] Share-based payments

The Company grants stock options to directors, officers and consultants pursuant to a stock option plan described in *note 8[e]*. The Company uses the fair value method to account for all share-based awards granted, modified or settled, and the Black-Scholes option pricing model to determine the fair value of stock options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received plus the amounts recognized in contributed surplus will be transferred to share capital on the exercise of stock options. The amounts remain in contributed surplus for stock options which expire unexercised. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively. Options issued to non-employees are valued based on the fair value of the options issued as the fair value of the services provided cannot be measured reliably.

[i] Income taxes

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[j] Investment tax credit

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

[k] Government assistances

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

[l] Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed in Note 8 are anti-dilutive for all periods presented.

[m] Equity and share capital

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

[n] Revenue recognition

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

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards 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 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* - This 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 2** *Classification and Measurement of Share-based Payment Transactions* – This standard was issued in June 2016. The amendments provide requirements on accounting for the effect of vesting and non-vesting conditions on the measurement of cash settled share-based payments, share-based transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transactions from cash-settled to equity-settled. This standard is effective for reporting periods beginning on or after January 1, 2018.

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

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Leasehold Improvement $	Total $
Office Furniture and Equipment Cost:					
Balance, December 31, 2015	**5,514**	—	—	**4,211**	**9,725**
Addition	—	—	42,235	—	42,235
Balance, December 31, 2016	**5,514**	—	**42,235**	**4,211**	**51,960**
Addition	5,039	1,609	—	—	6,648
Balance, December 31, 2017	**10,553**	**1,609**	**42,235**	**4,211**	**58,608**
Accumulated depreciation:					
Balance, December 31, 2015	**2,208**	—	—	**982**	**3,190**
Depreciation	1,128	—	—	1,684	2,812
Balance, December 31, 2016	**3,336**	—	—	**2,666**	**6,002**
Depreciation	1,740	268	14,078	1,545	17,631
Balance, December 31, 2017	**5,076**	**268**	**14,078**	**4,211**	**23,633**
Net book value:					
As of December 31, 2016	**2,178**	—	**42,235**	**1,545**	**45,958**
As of December 31, 2017	**5,477**	**1,341**	**28,157**	—	**34,975**

6. 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 7]*, the Company issued 3,360,000 common shares of the Company valued at $1,002,120, repaid TeOra's liabilities of $154,817 in cash and incurred transaction costs of $82,448 for a total acquisition cost of $1,239,385. Of the 3,360,000 common shares issued, 420,000 common shares were released to TeOra shareholders upon closing, and the remaining 2,940,000 common shares were held in escrow for release over time for services performed and upon achievement of certain milestones *[Note 8[b]]*.

The Company accounted for this transaction as an acquisition of an asset and services, and allocated $847,945 and $391,440 of the acquisition costs to intangible assets and deferred share-based payments *[Note 7]*, respectively. The acquisition cost of intangible assets is amortized over a five-year period using a straight-line method with one half of the amortization recognized in the year of acquisition.

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS (CONTINUED)

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "**Supernus Agreement**"). Pursuant to the terms of the Supernus Agreement, the Company paid an upfront fee of $478,940 (US$350,000) and is further obligated to pay additional licensing milestone fees of US$5.15 million, a mid-teen royalty fee on sales and a final sales milestone payment as described in *Note 10[b]*. 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 December 31, 2017, 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, December 31, 2016 and 2017	**847,945**	**478,940**	**1,326,885**
Accumulated amortization:			
Balance, December 31, 2015	**84,794**	**—**	**84,794**
Amortization of intangible assets	169,589	—	169,589
Balance, December 31, 2016	**254,383**	—	**254,383**
Amortization of intangible assets	169,589	—	169,589
Balance, December 31, 2017	**423,972**	—	**423,972**
Net book value:			
As of December 31, 2016	593,562	478,940	1,072,502
As of December 31, 2017	**423,973**	**478,940**	**902,913**

(Expressed in Canadian dollars)

7. 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 6[a]]*. Share-based payment for services of TeOra shareholders was recognized up front as a deferred asset and is expensed using the graded-vesting approach. During the year ended December 31, 2017, the Company recognized share-based payment expense of $69,104 (2016 – $187,030) related to the acquisition of TeOra. As of December 31, 2017, the net book value of the services acquired were as follows:

	Deferred share-based payments $
Cost:	
Balance, December 31, 2015, 2016 & 2017	**391,440**
Accumulated amortization:	
Balance, December 31, 2015	**116,328**
Amortization of deferred share-based payments	187,030
Balance, December 31, 2016	**303,358**
Amortization of deferred share-based payments	69,104
Balance, December 31, 2017	**372,462**
Net book value:	
As of December 31, 2016	88,082
As of December 31, 2017	**18,978**

8. SHARE CAPITAL

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of December 31, 2017, and 2016, there were no preferred shares issued and outstanding.

(Expressed in Canadian dollars)

8. 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, 2015	**39,554,127**	**7,582,240**
Issued for cash pursuant to a non-brokered private placement and a non-brokered public offering *[note 8[b][i]]*	5,297,422	2,648,711
Issued for cash pursuant to a public financing *[note 8[b][ii]]*	9,146,400	2,743,920
Share issue costs	—	(419,268)
Issue for services *[note 8[b][iii]]*	153,072	51,279
Balance, December 31, 2016	**54,151,021**	**12,606,882**
Issued for cash pursuant to bought-deal financing*[note 8[b][iv]]*	17,250,000	5,175,000
Share issue costs	—	(752,269)
Cancelled pursuant to TeOra Escrow agreement *[note 8[b][v]]*	(336,000)	—
Shares issued for services *[note 8[b][vi]]*	286,117	65,450
Balance, December 31, 2017	**71,351,138**	**17,095,063**

Held in Escrow Accounts	Number of Shares	Percentage of Escrowed Shares
(i) Pursuant to listing requirements of the TSX Venture Exchange		
Balance, December 31, 2015	**15,290,344**	**75.00%**
Release on March 17, 2016	(3,058,069)	(15.00%)
Release on September 17, 2016	(3,058,069)	(15.00%)
Balance, December 31, 2016	**9,174,206**	**45.00%**
Release on March 17, 2017	(3,058,069)	(15.00%)
Release on September 17, 2017	(3,058,069)	(15.00%)
Balance, December 31, 2017	**3,058,068**	**15.00%**
(ii) Pursuant to the terms of the TeOra Acquisition [note 6[a]]		
Balance, December 31, 2015	**2,940,000**	**87.50%**
Release on closing date anniversary of the TeOra acquisition	(420,000)	(12.50%)
Release on achievement of performance milestones	(1,344,000)	(40.00%)
Balance, December 31, 2016	**1,176,000**	**35.00%**
Release and cancellation for unmet performance milestone	(336,000)	(10.00%)
Release on closing date anniversary of the TeOra acquisition	(420,000)	(12.50%)
Balance, December 31, 2017	**420,000**	**12.50%**
Balance, December 31, 2016	**10,350,206**	
Balance, December 31, 2017	**3,478,068**	

8. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

As of December 31, 2017, the Company had 3,478,068 common shares, representing 4.87% of its issued and outstanding shares, held in escrow accounts. Subsequent to December 31, 2017, an additional 3,058,069 shares were released from escrow.

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

[ii] On September 13, 2016, the Company closed a public financing and issued 9,146,400 common shares at a price of $0.30 per share for total gross proceeds of $2,743,920. The public offering was co-led by Cormark Securities Inc. and Canaccord Genuity Corp. In connection to this financing, the Company paid commissions of $192,074, legal and professional fees of $79,940 and filing fees of $13,720.

[iii] On October 19, 2016, the Company issued 153,072 common shares as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided. The fair value of the shares is $51,279, which makes up a portion of the non-refundable start-up fee.

[iv] On March 13, 2017 the Company closed an agreement with Canaccord Genuity Corp. (“Canaccord”) to which they agreed to purchase, on a bought deal basis, 17,250,000 units at a price of $0.30 per unit, for aggregate gross proceeds to the Company of $5,175,000. Each unit is comprised of one common share of the company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for a period of two years at an exercise price of $0.45 per share, subject to adjustment in certain events.

In the event the volume weighted average trading price of the Company’s common shares on the TSX Venture Exchange is greater than $0.80 per common share for a period of 15 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof by way of press release and in such case the warrants will expire on the 30th day after such notice is given.

In connection to this financing, the Company paid $362,250 in commissions, $231,236 in legal and professional fees and $29,419 in filing fees. In addition, the Company issued 862,500 broker warrants in connection with the offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019. The fair value of the brokers warrants as calculated using Black-Scholes as $129,364 with the following assumptions: 67.884% volatility,0.80% risk free rate, 2 year expected life, 0% dividend, and $0.30 share price on issuance date.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

[v] Pursuant to the terms of the TeOra acquisition and the terms of the escrow agreement *[note 6[a]],* the Company cancelled 336,000 common shares relating to an unachieved performance milestone.

[vi] During the year ended December 31, 2017, the Company issued 286,117 common shares, as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided. The fair value of the shares is $65,450.

[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, 2015	**4,319,778**	**0.75**
Expired	(4,319,778)	**(0.75)**
Balance, December 31, 2016	**Nil**	**Nil**
Issued	8,625,000	0.45
Balance, December 31, 2017	**8,625,000**	**0.45**

The remaining life of the common share purchase warrants at December 31, 2017 is 1.2 years.

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price $
Balance, December 31, 2015	**549,271**	**0.54**
Expired	(425,521)[i]	(0.55)
Balance, December 31, 2016	**123,750**	**0.50**
Expired	(123,750)[ii]	(0.50)
Issued pursuant to bought-deal financing	862,500[iii]	0.30
Balance, December 31, 2017	**862,500**	**0.30**

The remaining life of the Agents' Warrants at December 31, 2017 is 1.2 years.

[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. These warrants expired unexercised.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[d] Agents' special warrants and broker's warrants (continued)

[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. These warrants expired unexercised.

[iii] The Company issued 862,500 broker warrants in connection with the March 13, 2017 offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant can be exercised for a price of $0.45 per warrant until March 13, 2019.

[e] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the TSX Venture Exchange. On June 15, 2015, August 19, 2016, and June 12, 2017, the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 12,000,000 common shares. Under the Amended and Restated Stock Option Plan, the maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the fiscal years ended December 31, 2017 and 2016, the Company recorded share-based payments of $304,211 and $488,011, respectively. The fair values of stock options granted during the fiscal years ended December 31, 2017 and 2016 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2017	2016
Risk-free interest rate	1.59%	0.63%
Estimated annualized volatility based on comparable companies	91.98%	87%
Expected life	6.76 years	5.49 years
Expected dividend yield	0%	0%
Exercise price	$0.19	$0.38
Fair value	$0.14	$0.26
Share price	$0.19	$0.38

(Expressed in Canadian dollars)

8. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

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

	Number	Weighted Average Exercise Price $
Balance, December 31, 2015	**3,937,337**	**0.44**
Cancelled, expired or forfeited	(662,000)	**(0.55)**
Granted	1,950,000	**0.38**
Balance, December 31, 2016	**5,225,337**	**0.40**
Cancelled, expired or forfeited	(50,000)	**(0.55)**
Granted	2,902,941	**0.19**
Balance, December 31, 2017	**8,078,278**	**0.32**

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
November 3, 2018	$0.31	400,000	400,000
November 1, 2019	$0.16	600,000	300,000
December 2, 2018	$0.27	500,000	500,000
May 31, 2020	$0.25	1,124,337	1,124,337
December 12, 2021	$0.35	565,000	565,000
December 18, 2022	$0.55	350,000	350,000
March 6, 2023	$0.55	465,000	465,000
July 9, 2023	$0.57	300,000	262,500
September 30, 2023	$0.55	421,000	388,500
April 21, 2024	$0.47	900,000	620,000
July 22, 2024	$0.35	150,000	75,000
December 6, 2025	$0.20	2,302,941	575,735
Balance, December 31, 2017	**$0.32**	**8,078,278**	**5,626,072**

As of December 31, 2017, the weighted average remaining life for outstanding options was 4.95 years (2016 - 5.09 years).

(Expressed in Canadian dollars)

9. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Subcontract research and licensing fees[i]	81,755	518,707
Management fees[ii] [iii] [iv]	358,500	559,000
Consulting fees [v] [vi] [vii] [viii]	316,964	375,951
	757,219	**1,453,658**

[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, two of the current directors of the Company. 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 $nil and $518,707 during the years ended December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, the Company incurred $81,755 (2016 - $Nil) in subcontract research expenses from Dr. Fotios Plakogiannis and to Alpha to Omega Consultants Inc., a company controlled by Dr. Fotios Plakogiannis.

[ii] Effective September 1, 2014, the Company entered into a management services agreement with Northview Lifesciences (formerly Northview Ventures and Associates General Partnership) ("**Northview**"), Doug Janzen, and Anne Stevens (the "**Northview Agreement**"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Ms. Stevens is Secretary and Chief Operating Officer. Pursuant to the Northview Agreement, Mr. Janzen, Ms. Stevens and other employees of Northview, direct and manage the affairs and the day-to-day operations of the Company at a monthly rate of $27,000. Effective February 1, 2016, the monthly rate increased to $37,000. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development and general administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. This management services agreement expired November 30, 2016. During the year ended December 31, 2017, Northview charged a total management fee of $nil. During the year ended December 31, 2016, Northview charged a total management fee of $522,000 including bonuses of $100,000 for completing financing milestones and $25,000 for completing a tech transfer.

9. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

[iii] 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 year ended December 31, 2017, NVI received $210,000 in compensation (2016 - $25,000).

[iv] 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 year ended December 31, 2017, Crecera received $111,000 (2016 - $12,000) 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 $37,500 for the year ended December 31, 2017.

[v] On December 1, 2014, the Company entered into a consulting services agreement with KeenVision Consulting Inc. ("**KeenVision**") and Christina Yip (the "**KeenVision Agreement**"). Ms. Yip served as the Acting Chief Financial Officer of the Company. KeenVision was compensated at a monthly rate of $8,000 and entitled to incentive bonuses upon the satisfaction of specified milestones. During the year ended December 31, 2017, KeenVision received total consulting fees of $nil (2016 - $92,000).

As of December 31, 2017, the Company has included in its accounts payable and accrued liabilities $10,500 (2016 -$10,500) due to KeenVision.

[vi] The Company entered into a consulting service agreement with Mr. Ian Ball who serves as the Chief Commercial Officer of the Company, effective July 28, 2015. Pursuant to this consulting agreement with a term to July 31, 2019, Mr. Ball is compensated at a monthly rate of $12,000. During the year ended December 31, 2017, Mr. Ball charged total consulting fees of $144,000 (2016 - $144,000).

As of December 31, 2017, the Company has included in its accounts payable and accrued liabilities $17,967 (2016 - $16,864) due to Mr. Ball.

[vii] 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 year ended December 31, 2017, Dr. McAfee charged total consulting fees of $77,550 (2016 - $99,838).

As of December 31, 2017, the Company has included in its accounts payable and accrued liabilities $3,764 (2016 - $6,307) due to Dr. McAfee.

(Expressed in Canadian dollars)

9. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

[viii] 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 year ended December 31, 2016, Fehr & Associates charged total consulting fees of $95,414 (2016 - $60,113) for CFO and outsourced accounting services.

As of December 31, 2017, the Company has included in its accounts payable and accrued liabilities $5,053 (2016 - $5,481) 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.

[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:

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
	$	**$**
Management fees, General administration	268,875	425,500
Management fees, Research and development	89,625	133,500
Consulting fees, General administration	145,814	182,513
Consulting fees, Research and development	77,550	99,838
Consulting fees, Sales and marketing	93,600	93,600
Share-based payments, General administration	89,922	225,069
Share-based payments, Research and development	38,288	19,064
Share-based payments, Sales and marketing	61,876	137,049
	865,550	**1,316,133**

[c] Other

During the year ended December 31, 2017, the Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates, and received $8,400 and $31,500, receptively, for recovery of rent expense.

10. COMMITMENTS AND CONTINGENCIES

[a] Operating lease

On April 9, 2015, the Company entered into a sublease agreement for its Vancouver head office premise expiring on November 30, 2018 and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay basic rent of $8,893 and operating costs, currently estimated at $6,655, on a monthly basis starting June 1, 2015. The Company has entered into sublease agreements of the space providing monthly rental revenue of $5,700 to offset rent expense. 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 and operating costs, currently estimated at $7,230, on a monthly basis starting December 1, 2018. The basic rent commitment will increase to $140,147 for the year ended December 31, 2019 and $143,827, $147,507, and $151,187 in each of the following years.

[b] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 6[b]]*, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$5.15 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR and Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both 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.

[c] Collaborative Commercialization Agreement

Subsequent to the end of the fiscal period, on April 2018, Aequus entered into a commercial 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.

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.

(Expressed in Canadian dollars)

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

[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 December 31, 2017, and 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. OPERATING SEGMENT

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

12. OPERATING EXPENSES

[a] Research and development expenses

	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Consulting and management fees *[note 9]*	375,508	361,147
Office and other	—	218
Patent and intellectual property protection	88,234	147,226
Salaries and wages	18,317	12,721
Share-based payments *[note 9]*	28,055	45,882
Subcontract research costs and development costs *[note 9]*	894,874	558,101
Travel and accommodation	9,718	2,485
	1,414,706	**1,127,780**

(Expressed in Canadian dollars)

12. OPERATING EXPENSES (CONTINUED)

[b] Sales and marketing expenses

	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Advertising and promotion	25,825	152,302
Consulting and management fees *[note 9]*	162,865	394,317
Depreciation and amortization	183,667	169,589
Printing and other expenses	54,697	51,765
Salaries and wages	41,542	87,615
Subcontract salesforce	694,701	523,292
Share-based payments *[note 9]*	69,218	190,178
Travel and accommodation	150,608	198,306
	1,383,123	**1,767,364**

[c] General administration expenses

	Year Ended December 31, 2017 $	Year Ended December 31, 2016 $
Consulting and management fees *[note 9]*	1,029,302	1,274,099
Legal and professional fees	241,398	329,787
Other general administration expenses *[note 9]*	409,631	341,235
Regulatory and transfer agent fees	75,647	62,571
Salaries and benefits	82,523	57,619
Share-based payments *[note 9]*	276,042	438,981
Travel and accommodation	229,510	165,780
	2,344,053	**2,670,072**

13. 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 and contributed surplus. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2017.

14. 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 and cash equivalents 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 have cashable GIC at December 31, 2017 of $850,000 (2016 - $nil). Amounts receivable consist of goods and services tax due from the Government of Canada and service fees owed from a collaborative partner.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2017, the Company had working capital of $1,348,147 (December 31, 2016 - $59,142).

[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 years ended December 31, 2017 and 2016, fluctuations in the market interest rates had no significant impact on its interest income.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[ii] Currency risk

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

As at December 31, 2017 and 2016, the Company had the following assets and liabilities denominated in U.S. dollars:

	December 31, 2017 US$	**December 31, 2016 US$**
Cash and cash equivalents	40	2,145
Accounts payable and accrued liabilities	(36,733)	(52,844)
Total	**(36,693)**	**(50,699)**

Based on the above net exposure as at December 31, 2017, 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 $1,834 (2016 - $2,535) in the Company's net loss. Furthermore, the company incurred $958,454 USD expenditures during the year ended December 31, 2017. A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $47,923.

(Expressed in Canadian dollars)

15. INCOME TAXES

At December 31, 2017, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, which expires as follows:

Expiry Date	Non-Capital Losses $
December 31, 2032	615,012
December 31, 2033	1,853,110
December 31, 2034	613,893
December 31, 2035	2,705,562
December 31, 2036	3,962,805
December 31, 2037	3,364,037
	13,114,419

The Company also has a tax pool of approximately $1,766,000 related to scientific research and experimental development expenditures in Canada available to carry forward indefinitely to reduce taxable income of future years.

Effective January 1, 2018, the British Columbian tax rate increased from 11.00% to 12.00% while the federal corporate tax remained unchanged at 15%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 26.00% to 27.00% effective January 1, 2018.

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

	December 31, 2017 $	December 31, 2016 $
Deferred income tax assets (liabilities):		
Property and equipment	6,911	2,071
Share issuance costs	266,439	193,958
Scientific research and experimental development expenditures	476,837	380,593
Non-capital loss carryforwards	3,540,893	2,528,076
Total deferred income tax assets	4,291,080	3,104,698
Deferred income tax assets not recognized	(4,291,080)	(3,104,698)
Net deferred income tax assets	—	—

The potential income tax benefits relating to the net deferred income tax assets have not been recognized in the Financial Statements as their realization did not meet the requirements of "probable" under the liability method of tax allocation. Accordingly, no net deferred income tax assets have been recognized as at December 31, 2017 and 2016.

(Expressed in Canadian dollars)

15. INCOME TAXES (CONTINUED)

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 26% statutory tax rate is:

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
	$	**$**
Expected income tax recovery at statutory rates	(1,009,431)	(1,251,134)
Items not deductible for tax purposes	150,956	227,267
Effect of change in tax rates	(158,929)	—
Under/(over) provided in prior year	(7,023)	—
Benefits not recognized	1,024,427	1,023,867
Income tax expense	—	—

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year Ended December 31, 2017	**Year Ended December 31, 2016**
	$	**$**
Cash and cash equivalents consist of:		
Cash	314,518	473,242
Certificate of deposit	850,000	—
	1,164,518	473,242
Interest received/paid	—	—
Income taxes paid	—	—
Non-cash transactions:		
Fair value of broker's warrants	129,364	—
Fair value of securities issued for services	(65,450)	(51,279)
Addition to property and equipment included in accounts payable and accrued liabilities	—	(42,235)

17. SUBSEQUENT EVENTS

[a] Subsequent to December 31, 2017, the Company completed an equity financing of 1,000,000 units of the Company at a price of $0.30 per unit for total proceeds of $300,000. Each unit comprising of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.50 for a period of twenty-four months. The warrants include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $0.85 for 10 consecutive trading days.

17. SUBSEQUENT EVENTS (CONTINUED)

[b] Subsequent to December 31, 2017, the Company issued 179,149 common shares as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services with a fair value of $55,780.

[c] Subsequent to December 31, 2017, the Company granted 30,000 stock options exercisable at $0.25 per share for a period of 8 years. 25% of the options vest immediately, 25% on the first anniversary of the grant date, and the remainder on the second anniversary of the grant date.