CYNAPSUS THERAPEUTICS INC.
(formerly CANNASAT THERAPEUTICS INC.)
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Audited

CYNAPSUS THERAPEUTICS INC.
(formerly CANNASAT THERAPEUTICS INC.)
December 31, 2010 and 2009

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cynapsus Therapeutics Inc. (formerly Cannasat Therapeutics Inc.)

We have audited the accompanying financial statements of Cynapsus Therapeutics Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cynapsus Therapeutics Inc. (formerly Cannasat Therapeutics Inc.) as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 4, 2011

CYNAPSUS THERAPEUTICS INC.

(formerly CANNASAT THERAPEUTICS INC.)
Balance Sheets
As at December 31,

		2010		2009
ASSETS				
CURRENT				
Cash and cash equivalents	$	193,484	$	483,197
Sundry receivables (Note 5(a))		46,262		113,903
		239,746		597,100
EQUIPMENT (Note 6)		10,434		14,249
OTHER INTANGIBLE ASSETS (Note 8)		138,889		150,000
	$	389,069	$	761,349
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Notes 10 and 12)	$	835,035	$	765,491
Debentures payable (Note 13)		668,826		-
	$	1,503,861	$	765,491
COMMITMENTS AND CONTINGENCIES (Note 12)				
GOING CONCERN (Note 2)				
SHAREHOLDERS' DEFICIENCY				
SHARE CAPITAL (Note 7(b))		9,140,310		8,961,130
WARRANTS (Note 7(c))		236,183		294,444
CONTRIBUTED SURPLUS (Note 7(f))		2,049,809		1,841,596
(DEFICIT)		(12,541,094)		(11,101,312)
		(1,114,792)		(4,142)
	$	389,069	$	761,349

APPROVED BY THE BOARD:

Signed “Ronald Hosking”, Director

Signed “Alan Ryley”, Director

The accompanying notes are an integral part of these financial statements

CYNAPSUS THERAPEUTICS INC.

(formerly CANNASAT THERAPEUTICS INC.)
Statements of Operations, Comprehensive Loss and Deficit
For the years ended December 31,

		2010		2009
REVENUE				
Interest income	$	1,015	$	12,865
EXPENSES				
General and administrative		1,188,360		1,139,294
Research and development		454,027		616,297
Amortization of equipment and intangible assets		14,926		13,586
Stock option compensation expense		149,952		225,263
Recovery on scientific research		(135,780)		(230,468)
Forgiveness of debt		(230,688)		-
		1,440,797		1,763,972
NET (LOSS) AND COMPREHENSIVE (LOSS) FOR THE YEAR		(1,439,782)		(1,751,107)
(DEFICIT), BEGINNING OF YEAR		(11,101,312)		(9,350,205)
(DEFICIT), END OF YEAR	$	(12,541,094)	$	(11,101,312)
(LOSS) PER SHARE - basic and diluted	$	(0.02)	$	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		91,162,628		81,566,918

CYNAPSUS THERAPEUTICS INC.

(formerly CANNASAT THERAPEUTICS INC.)
Statements of Cash Flows
For the years ended December 31,

	2010	2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the year	$ (1,439,782)	$ (1,751,107)
Items not affecting cash		
Amortization of equipment and intangible assets	14,926	13,586
Stock option compensation expense	149,952	225,263
Accretion expense for debentures (Note 13)	48,336	-
Accrual of debenture interest (Note 13)	26,170	-
Value of shares issued for license option (Note 14)	37,500	-
Forgiveness of debt	(230,688)	-
Value of shares issued for services	-	60,287
Value of shares issued for promissory note debt interest	-	11,000
	(1,393,586)	(1,440,971)
Changes in non-cash operating working capital items		
Sundry receivables	67,641	(60,267)
Accounts payable and accrued liabilities	300,232	266,237
	(1,025,713)	(1,235,001)
INVESTING		
Acquisition of equipment	-	(9,524)
FINANCING		
Share and warrant issuances, net of issue costs	-	922,594
Debenture issuances (Note 13)	736,000	-
	736,000	922,594
NET DECREASE IN CASH AND CASH EQUIVALENTS	(289,713)	(321,931)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	483,197	805,128
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 193,484	$ 483,197
CASH AND CASH EQUIVALENTS CONSIST OF		
Cash	$ 193,484	$ 103,197
Cash equivalents	-	380,000
	$ 193,484	$ 483,197

SUPPLEMENTARY CASH FLOW INFORMATION (Note 15)

1. DESCRIPTION OF BUSINESS

Cynapsus Therapeutics Inc. (the "Corporation", the "Company" or "Cynapsus") is a publicly traded (CTH: TSX-V) specialty clinical development pharmaceutical company targeting diseases of the brain. Cannasat Pharmaceuticals Inc. was incorporated under the Canada Business Corporations Act on January 16, 2004 and changed its name to Cannasat Therapeutics Inc. ("Cannasat") on January 25, 2005. Cannasat and Lonsdale Public Ventures Inc. ("Lonsdale"), a capital pool company, were amalgamated on March 15, 2006 under the Business Corporations Act (Canada) and continued as one company with the name "Cannasat Therapeutics Inc." On April 15, 2010, Cannasat changed its name to Cynapsus Therapeutics Inc. The Corporation is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 "Enterprises in the Development Stage".

2. ACCOUNTING POLICIES AND GOING CONCERN

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered to be particularly significant:

Going Concern
While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption. The Corporation has used cash of $9,417,648 in operating activities from inception to December 31, 2010 and has an accumulated deficit of $12,541,094 as at December 31, 2010. The Corporation will be pursuing further financings. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of business, however, there is no assurance that these funds will be available on terms acceptable to the Corporation or at all. The Corporation's continued existence is dependent upon its ability to obtain additional financing as needed and to attain profitable operations.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used. Such adjustments could be material.

Expenditures during the development stage
The Corporation is in the development stage and has incurred capital and non-capital expenditures prior to the commencement of commercial operations. The Corporation has chosen to expense the non-capital expenditures as incurred.

Cash and cash equivalents
Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of ninety days or less and which are not subject to significant risk of changes in value.

Equipment
Equipment is recorded at cost and is amortized on the diminishing balance method based on their estimated useful lives as follows:

Computer equipment	-	30% per annum
Furniture and fixtures	-	20% per annum.

Deferred compensation expense
The cost of stock option compensation granted to consultants is deferred and amortized over the period that the services are provided.

Continued

2. ACCOUNTING POLICIES AND GOING CONCERN (continued)

Other intangible assets
Other intangible assets comprise a license for patented products that expires when the last patent expires. The asset is recorded at cost and is amortized on a straight line basis over its estimated useful life of 18 years.

Research and development costs
Research costs are expensed as incurred. Development costs are expensed as incurred except if the product is defined and the costs attributable thereto can be identified, the future market for the product is defined and there exists adequate resources to complete the project. The Corporation has expensed all research and development costs incurred to date.

Stock-option compensation
The Corporation records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

Income taxes
The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted or substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by the Corporation include factors affecting valuations of stock-option compensation, warrants, other intangible assets and the valuation of income tax accounts. The Corporation regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

Loss per share
Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended December 31, 2010 and were 8,910,000 (2009 – 8,225,829) and 12,163,350 (2009 – 13,338,350), respectively.

Continued

2. ACCOUNTING POLICIES AND GOING CONCERN (continued)

Financial instruments
Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables" or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive loss.

Comprehensive loss
Comprehensive loss, composed of net loss and other comprehensive loss, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive loss (“OCL”) includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive loss are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss ("AOCL") which is presented as a category in shareholders' equity. The Corporation does not currently have any OCL items or AOCL. Therefore, comprehensive loss is equal to net loss for the years ended December 31, 2010 and 2009.

Impairment of long-lived assets
Long-lived assets held for use are reviewed for impairment when events or circumstances indicate that its carrying value may not be recoverable. When the carrying value is not expected to be recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the asset's fair value, an impairment loss is recorded.

3. CHANGES IN ACCOUNTING POLICIES

(a) Recent Accounting Pronouncements

(i) International Financial Reporting Standards
In January 2006, the Canadian Accounting Standards Board (“AcSB”) announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Corporation will be required to prepare IFRS financial statements for the interim and fiscal year ends beginning in 2011. Based on the analysis of information to date and due to the simplicity of the Company’s accounting policies and computer systems, management considers the risk of not meeting the changeover date to be minimal. Management has developed a changeover plan and is in the process of implementing it.

3. CHANGES IN ACCOUNTING POLICIES (continued)

(ii) Business Combinations

CICA handbook Section 1582 “Business Combinations”, replaces Section 1581 “Business Combinations”, and provides the Canadian equivalent to International Financial Reporting Standards 3 “Business Combinations”. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. Section 1582 is effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact that this new standard may have on the financial statements of the Company.

(iii) Consolidations and Non-Controlling Interests

CICA handbook Sections 1601 “Consolidated Financial Statements”, and 1602 “Non-Controlling Interests” replace Section 1600 “Consolidated Financial Statements”. These new sections provide the Canadian equivalent to International Accounting Standard 27 “Consolidated and Separate Financial Statements”. Sections 1601 and 1602 are effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact that this new standard may have on the financial statements of the Company.

4. CAPITAL MANAGEMENT

The Corporation manages its capital structure and makes adjustments to it, based on the funds available to the Corporation, in order to support its research and development activities. The Corporation’s capital consists of share capital, warrants and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Corporation’s management to sustain future development of the business.

The products which the Corporation currently has in its pipeline are in the research and development stage; as such the Corporation is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administration costs, the Corporation will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable.

There were no changes in the Corporation’s approach to capital management during the years ended December 31, 2010 and 2009. The Corporation is not subject to externally imposed capital requirements.

5. FINANCIAL RISK FACTORS

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below. There were no significant changes to credit risk, liquidity risk and market risk during the year ended December 31, 2010 compared to the year ended December 31, 2009.

(a) Credit Risk

The Corporation has no significant concentration of credit risk arising from operations. Financial instruments included in sundry receivables consist of goods and services tax due from the Federal Government of Canada and amounts due from the Ontario portion of the Scientific Research and Experimental Development ("SRED") tax incentive program. Management believes that the credit risk concentration with respect to these financial instruments is remote.

(b) Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Corporation had cash and cash equivalents of $193,484 and sundry receivables of $46,262 (2009 - $483,197 and $113,903) to settle current liabilities of $1,503,861 (2009 - $765,491). The Corporation's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The terms of the debenture payable are disclosed in Note 13.

The Corporation believes movement in interest rates is "reasonably possible" over the next 12 months. Since cash and cash equivalents have varying terms and rates, sensitivity to a plus or minus 1% change in rates could affect its net loss by approximately $2,000.

(c) Market Risk

(i) Interest rate risk

The Corporation has cash and cash equivalent balances and debentures payable as at December 31, 2010. The Corporation's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions bearing interest at 0.5% per annum. The Corporation periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Corporation considers interest rate risk to be minimal as investments are short term and the debentures have a fixed rate of interest. As at December 31, 2010, the Corporation has $800,000 in debentures bearing 8% interest per annum. A debenture of $100,000 plus interest is due and payable before March 24, 2011 and debentures totalling $700,000 plus interest are due and payable before December 30, 2011.

(ii) Foreign currency risk

The Corporation's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Corporation funds certain research and development expenses in the United States and Europe on a cash call basis using the US Dollar and the Euro currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Corporation does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

5. FINANCIAL RISK FACTORS (continued)

(c) Market Risk (continued)

(iii) *Price risk*

The Corporation is exposed to price risk with respect to Active Pharmaceutical Ingredient (API) prices used in research and development activities. The Corporation monitors API prices in the United States, Europe and Asia to determine the appropriate course of action to be taken by the Corporation. Management believes that the price risk concentration with respect to API is remote.

(d) Fair value

The Corporation has designated its cash equivalents as held-for-trading, measured at fair value. Sundry receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and debentures payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying amounts for cash and cash equivalents, sundry receivables and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

The carrying amount of the debentures payable on the balance sheet approximates fair value as the interest rate approximates the current rate for similar instruments.

The Corporation's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as Level 2 within the fair value hierarchy.

6. EQUIPMENT

	December 31, 2010		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	15,270	8,510	6,760
Furniture and fixtures	9,318	5,644	3,674
Total	24,588	14,154	10,434

	December 31, 2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Computer equipment	15,270	5,613	9,657
Furniture and fixtures	9,318	4,726	4,592
Total	24,588	10,339	14,249

7. SHARE CAPITAL

a) *Authorized*

Unlimited number of common shares with no par value

b) *Issued and outstanding common shares*

	Number of Shares #	Value $
Balance, December 31, 2008	74,643,849	8,089,432
February 27, 2009 (i)	3,870,000	387,000
Warrant valuation (i)	-	(54,809)
August 6, 2009 (ii and iii)	7,509,500	750,950
Warrant valuation (ii and iii)	-	(130,874)
August 31, 2009 (ii and iv)	1,789,000	178,900
Warrant valuation (ii and iv)	-	(31,038)
December 18, 2009 (v)	1,852,870	185,287
Share issue costs	-	(413,718)
Balance, December 31, 2009	89,665,219	8,961,130
July 19, 2010 (vi)	1,913,600	95,680
July 26, 2010 (vii)	662,400	33,120
September 14, 2010 (viii)	750,000	37,500
November 24, 2010 (ix)	368,000	12,880
Balance, December 31, 2010	93,359,219	9,140,310

i) On February 27, 2009, the Corporation, as part of a private placement, issued 3,870,000 units at a price of $0.10 per unit for gross proceeds of $387,000. Each unit consisted of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Corporation at a price of $0.15 per share until February 26, 2011. The grant date fair value of the warrants was estimated at $57,650 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.15%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 100%. Share issue costs related to this private placement were $21,605 of which $2,841 was allocated to warrants.

ii) On March 30, 2009, the Corporation signed an engagement letter with Sandfire Securities Inc. (the “Agent”) to act as lead agent in the offering of units by the Corporation in an amount of up to $2,500,000. Each unit consisted of one common share and one common share purchase warrant that were priced at $0.10 per unit. The Corporation agreed to pay to the Agent a cash commission of 8% of the gross proceeds of the Offering. The Corporation also agreed to pay the Agent a corporate finance fee of $25,000, a work fee in the amount of $10,000 per month until the completion of the Offering, a success fee of $25,000 upon closing of the Offering and to reimburse the Agent for certain expenses incurred in connection with the Offering. The work fee was credited against the cash commission upon completion of the Offering. Additional financing costs include items such as legal and other professional expenses, travel, printing and regulatory filing fees.

7. SHARE CAPITAL (continued)

b) Issued and outstanding common shares (continued)

iii) On August 6, 2009, the Corporation, as part of a short form prospectus offering (the "Offering"), sold an aggregate of 7,509,500 units at a price of $0.10 per unit for gross proceeds of $750,950. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Corporation at a price of $0.15 per share until August 6, 2011. The grant date fair value of the warrants was estimated at $226,306 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.45%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 118%. Share issue costs related to this private placement were $316,672 of which $95,432 was allocated to warrants.

In connection with the sale of the units, the Corporation issued 750,950 common share purchase warrants to the Agent. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.10 per share until August 6, 2011. The grant date fair value of the warrants was estimated at $15,634 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.45%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 118%.

iv) On August 31, 2009, the Corporation, as part of the Offering, sold an aggregate of 1,789,000 units at a price of $0.10 per unit for gross proceeds of $178,900. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Corporation at a price of $0.15 per share until August 31, 2011. The grant date fair value of the warrants was estimated at $53,670 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.28%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 117%. Share issue costs related to this private placement were $75,441 of which $22,632 was allocated to warrants.

In connection with the sale of the units, the Corporation issued 178,900 common share purchase warrants to the Agent. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.10 per share until August 31, 2011. The grant date fair value of the warrants was estimated at $3,828 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.28%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 117%.

v) On December 18, 2009, 1,852,870 common shares, valued at $185,287 were issued to employees, officers, directors (Note 10) and a promissory note holder (Note 9) of the Corporation for amounts owing for services, fees and debt.

vi) On July 19, 2010, the Corporation completed a financing of secured debentures in the aggregate amount of $520,000 (See Note 13). As part of the financing, the Corporation issued 1,913,600 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

vii) On July 26, 2010, the Corporation completed a financing of secured debentures in the aggregate amount of $180,000 (See Note 13). As part of the financing, the Corporation issued 662,400 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

7. SHARE CAPITAL (continued)

b) Issued and outstanding common shares (continued)

viii) On September 14, 2010 the Corporation issued 750,000 common shares to Adagio Pharmaceuticals Ltd. ("Adagio") based on a price of $0.05 per share. The share price was estimated based on the trading price of the common shares on the date of issuance. The shares were issued in relation to the July 26, 2010 announcement that the Corporation had entered into a License Option Agreement with Adagio granting Cynapsus the option to execute a proposed exclusive, worldwide agreement to license all intellectual property relating to APL-130277, a reformulation of an approved Parkinson's drug (See Note 14).

ix) On November 24, 2010, the Corporation completed a financing of secured debentures in the aggregate amount of $100,000 (See Note 13). As part of the financing, the Corporation issued 368,000 common shares to debenture holders at a price of $0.035 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

c) Warrants

The number of warrants outstanding as at December 31, 2009 and 2010 and changes during the years ended on those dates is presented below:

	Number of Warrants #	Estimated Grant Date Fair Value $	Weighted Average Price / Share
Balance, December 31, 2008	5,008,333	152,468	0.211
February 27, 2009 (Note 7(b)(i))	1,935,000	54,809	0.150
Expired March 14, 2009	(3,333,333)	(94,207)	0.200
Expired March 16, 2009	(500,000)	-	0.208
August 6, 2009 (Note 7(b)(iii)	7,509,500	130,874	0.150
August 6, 2009 (Note 7(b)(iii))	750,950	15,634	0.100
August 31, 2009 (Note 7(b)(iv))	1,789,000	31,038	0.150
August 31, 2009 (Note 7b)(iv))	178,900	3,828	0.100
Balance, December 31, 2009	13,338,350	294,444	0.153
Expired February 8, 2010	(1,175,000)	(58,261)	0.220
Balance, December 31, 2010	12,163,350	236,183	0.150

7. SHARE CAPITAL (continued)

c) Warrants (continued)

Warrants outstanding and exercisable as at December 31, 2010 are as follows:

Number of Warrants #	Number of shares issuable on exercise of warrants #	Effective Strike Price ($/share)	Estimated Grant Date Fair Value $	Expiry Date
1,935,000	1,935,000	0.150	54,809	February 26, 2011
7,509,500	7,509,500	0.150	130,874	August 6, 2011
750,950	750,950	0.100	15,634	August 6, 2011
1,789,000	1,789,000	0.150	31,038	August 31 ,2011
178,900	178,900	0.100	3,828	August 31 ,2011
12,163,350	12,163,350		$236,183	

The weighted average grant date fair value of the warrants issued during the year ended December 31, 2010 is $nil (2009: $0.02).

d) Stock options

The Company has in place a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company in a 12-month period. Option grants to persons providing consulting and investor services may not exceed 2% of the issued and outstanding common shares of the Company in any 12-month period. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company and shall not be lower than the discounted market price (as defined by the the TSX Venture) of the shares at the time of grant, subject to all applicable regulatory requirements.

The number of stock options outstanding as at December 31, 2009 and 2010 and changes during the years ended on those dates is as follows:

	Number of Options #	Number of Shares Issuable on Exercise of Options #	Weighted Exercise Price/Share $
Options outstanding at December 31, 2008	4,594,016	6,975,594	0.257
Granted	2,050,000	2,050,000	0.100
Expired	(360,266)	(799,765)	0.285
Options outstanding as at December 31, 2009	6,283,750	8,225,829	0.215
Granted	1,925,000	1,925,000	0.100
Forfeited	(200,000)	(200,000)	0.158
Expired	(748,750)	(1,040,829)	0.271
Options outstanding as at December 31, 2010	7,260,000	8,910,000	0.185

7. SHARE CAPITAL (continued)

d) Stock options (continued)

The weighted average grant date fair value of the stock options issued during the year ended December 31, 2010 is $0.04 (2009: $0.09). The exercise price of stock options granted during the year were greater than the fair market value of the common shares on the date of grant. The fair value of the options granted during the year ended December 31, 2010, has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (2009: 0%), expected volatilities between 122% and 127% (2009: 120% - 122%), risk free rates of return between 2.00% and 2.37% (2009: 2.33% and 2.60%) and expected lives of 5 years (2009: 5 years).

Stock options issued and outstanding as at December 31, 2010 are as follows:

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price ($/share)	Expiry Date
50,000	150,000	0.283	March 23, 2011
208,333	625,000	0.283	June 30, 2011
66,667	200,000	0.317	August 31, 2011
50,000	150,000	0.283	August 31, 2011
250,000	750,000	0.283	November 1, 2011
116,667	350,000	0.283	December 31, 2011
260,000	260,000	0.250	May 24, 2012
750,000	750,000	0.250	June 25, 2012
16,667	50,000	0.283	June 30, 2012
66,666	200,000	0.317	August 31, 2012
600,000	600,000	0.200	April 4, 2013
700,000	700,000	0.200	June 25, 2013
250,000	250,000	0.200	August 28, 2013
1,450,000	1,450,000	0.100	August 31, 2014
500,000	500,000	0.100	November 16, 2014
425,000	425,000	0.100	March 3, 2015
1,300,000	1,300,000	0.100	August 12, 2015
200,000	200,000	0.100	November 10, 2015
7,260,000	8,910,000		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2010 is 6,093,334. The weighted average exercise price of stock options that are exercisable as at December 31, 2010 is $0.220.

The weighted average contractual life remaining for outstanding and exercisable options at December 31, 2010 was 2.6 years and 1.95 years, respectively.

7. SHARE CAPITAL (continued)

e) Escrowed shares

On March 15, 2006, Cynapsus amalgamated with Lonsdale, a capital pool company. Immediately following the amalgamation, 38,705,837 common shares of the Corporation were subject to escrow. 34,608,879 of these escrowed shares are to be released over a period of 72 months on the basis of 5% to be released six months after the final Exchange bulletin (March 23, 2006), 5% to be released every six months thereafter for the next 18 months and 10% to be released every six months thereafter for the next 48 months. At December 31, 2010, 10,382,673 of the 72-month release shares are still subject to escrow.

f) Contributed Surplus

Contributed surplus represents the fair value of unexercised and expired warrants as well as the unexercised fair value of stock option compensation earned by directors, officers, employees and certain consultants of the Corporation as follows:

Balance December 31, 2008	$ 1,538,126
Compensation earned during the year – employee	173,996
Compensation earned during the year – non-employee	35,267
Expiry of warrants, March 14, 2009	94,207
Balance December 31, 2009	$ 1,841,596
Compensation earned during the year – employee	149,202
Compensation earned during the year – non-employee	750
Expiry of warrants, February 8, 2010	58,261
Balance December 31, 2010	$ 2,049,809

8. OTHER INTANGIBLE ASSETS

On June 10, 2005, the Corporation entered into a license agreement with a research and development company. The license fee of $200,000 was satisfied by the execution and delivery of two promissory notes on June 30, 2005 (see Note 9) in the aggregate principal amount of $100,000 and the issuance of 117,648 Class A common shares at an aggregate subscription price of $100,000. In addition to the acquisition costs, the Corporation has agreed to pay a combination of milestone-based payments and royalties. The license is for patents that have been issued in certain jurisdictions and are currently pending in others.

	December 31, 2010		
	Cost $	Accumulated Amortization $	Net Book Value $
License	200,000	61,111	138,889

	December 31, 2009		
	Cost $	Accumulated Amortization $	Net Book Value $
License	200,000	50,000	150,000

9. NOTES PAYABLE

Promissory notes in the aggregate principal amount of $100,000 were issued by the Corporation on June 30, 2005 in connection with the signing of the agreement for the worldwide license to make, use or sell certain licensed products (see Note 8). The notes, including $25,000 in interest owed, were settled by the issuance of 1,250,000 common shares on December 18, 2009. (See Note 7(b)(v)).

10. RELATED PARTY TRANSACTIONS

Related party transactions during the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Included in general and administrative expenses		
Management fees	$142,000	$206,250
Director fees	43,350	38,850
Consulting services paid to a Director	28,000	3,000
	$213,350	$248,100

At December 31, 2010, included in accounts payable and accrued liabilities is $197,440 (2009 - $98,560) due to officers and directors of the Corporation. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

On July 19, 2010, the Corporation completed a financing of secured debentures in the aggregate amount of $520,000 (See Note 13). Included in this total, was a $50,000 debenture from a director who was also issued 184,000 common shares at a price of $0.05 per share.

On September 14, 2010, Adagio was issued 750,000 common shares in the capital of Cynapsus based on a price of $0.05 per share. An officer of the Corporation is also a director, officer and majority shareholder of Adagio, a private holding corporation. See Note 14.

On February 27, 2009, certain officers and directors of the Corporation purchased 770,000 units as part of the private placement for gross proceeds of $77,000 (see Note 7(b)(i)).

On December 18, 2009, 522,000 common shares were issued to officers and directors of the Corporation in settlement of $52,200 of amounts owing for services (see Note 7(b)(v)).

11. INCOME TAXES

a) Provision for income taxes:

Major items causing the Corporation's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 31% (2009 – 33%) are as follows:

	December 31, 2010	December 31, 2009
Loss before income taxes	$ (1,439,782)	$(1,751,107)
Expected income tax recovery	$ (446,000)	$ (578,000)
Adjustments to benefit resulting from:		
Difference in income tax rates	-	140,000
Change in income tax rates	86,000	335,000
Share issue costs	-	(96,000)
Stock option compensation	37,000	56,000
Other	195,000	6,000
	$ (128,000)	$ (137,000)
Change in valuation allowance	128,000	137,000
	$ -	$ -

b) The effect of temporary differences that give rise to future income tax assets and liabilities are as follows:

	December 31, 2010	December 31, 2009
Future income tax assets:		
Share issuance costs	$ 66,000	$ 112,000
Equipment	3,000	2,000
Tax loss carry forwards	2,638,000	2,465,000
	$ 2,707,000	$ 2,579,000
Valuation allowance	(2,707,000)	(2,579,000)
	$ -	$ -

c) The Corporation has approximately $10,551,000 of non-capital losses as at December 31, 2010, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Available To	Amount ($)
2014	501,000
2015	1,596,000
2026	2,102,000
2027	2,048,000
2028	1,508,000
2029	1,524,000
2030	1,272,000
	10,551,000

12. COMMITMENTS AND CONTINGENCIES

The Corporation is party to certain management contracts for its executive officers. Minimum management contract termination commitments remaining under the agreements, for termination without cause, is approximately $300,000 and are all payable within one year.

The Corporation is subject to additional termination and stock option commitments, contingent upon the Corporation raising a cumulative amount of $5 million after November 16, 2009. Once raised, the Corporation will have additional management contract termination commitments of $285,400 and will be required to issue 3,733,163 stock options priced at the then fair market value, but not less than $0.10 per share.

On November 15, 2009, the former CEO resigned and is due $216,500 over a twelve month period, contingent upon the Corporation raising a minimum of $2 million after that date and at the discretion of the Board. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

During the year ended December 31, 2010, the Corporation awarded bonuses of $179,052 to certain officers and employees of the Corporation, with payment being contingent upon the Corporation raising a minimum of $3 million. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

The Corporation has entered into a lease for its office premises in Toronto. Minimum rental commitments approximate $23,000 due within one year.

The Corporation has one contractual dispute for amounts totalling $36,000. Included in accounts payable and accrued liabilities is $20,000 related to this potential dispute. Management believes this dispute will be settled before June 30, 2011.

The Corporation has retained Summer Street Research Partners ("Summer Street") to serve as its exclusive financial advisor. In addition to reasonable out-of-pocket expenses, the Corporation has agreed to pay Summer Street compensation for its services under an agreement. If a financing is consummated, the Corporation agrees to pay Summer Street a cash placement fee equal to eight percent on any gross proceeds received whereby the investors have been introduced by Summer Street. In addition, the Company shall issue to Summer Street, warrants to purchase that number of shares of common stock of the Corporation equal to an aggregate of eight percent of the aggregate number of shares issued or issuable in connection with the financing. If a Partnering Transaction or Merger, Sale or Acquisition is consummated, the Corporation shall pay to Summer Street a cash fee equal to the greater of five percent of the consideration or US$100,000. If Summer Street is requested to provide an Opinion, a cash fee of US$250,000 will be required.

See Notes 13 and 14.

13. DEBENTURES PAYABLE

On July 19, 2010, Cynapsus completed a financing of secured debentures in the aggregate amount of $520,000. The secured debentures bear interest at a rate of 8% per annum and are secured by a security interest in the assets of the Company. The secured debentures are payable by Cynapsus on December 30, 2011. As part of the financing, the Corporation paid an 8% capital discount to the debenture holders resulting in net proceeds to the Corporation of $478,400 and issued 1,913,600 common shares to the debenture holders at a price of $0.05 per share.

On July 26, 2010, Cynapsus completed a second financing of secured debentures in the aggregate amount of $180,000. The secured debentures bear interest at a rate of 8% per annum and are secured by a security interest in the assets of the Company. The secured debentures are payable by Cynapsus on December 30, 2011. As part of the financing, the Corporation paid an 8% capital discount to the debenture holders resulting in net proceeds to the Corporation of $165,600 and issued 662,400 common shares to the debenture holders at a price of $0.05 per share.

On November 24, 2010, Cynapsus completed a third financing of a secured debenture of $100,000. The secured debenture bears interest at a rate of 8% per annum and is secured by a security interest in the assets of the Company. The secured debenture is payable by Cynapsus on March 24, 2011. As part of the financing, the Corporation paid an 8% capital discount to the debenture holder resulting in net proceeds to the Corporation of $92,000 and issued 368,000 common shares to the debenture holders at a price of $0.035 per share.

A continuity of the debentures payable as follows at December 31, 2010:

Face value	$ 800,000
Capital discount (8%)	(64,000)
	$ 736,000
Value of shares issued as debenture bonus shares (Note 15)	(141,680)
	$ 594,320
Accretion expense	48,336
Interest expense	26,170
Balance, December 31, 2010	$ 668,826

14. LICENSE OPTION AGREEMENT

On July 26, 2010, the Corporation entered into a license option agreement with Adagio granting the Corporation the option to execute a proposed exclusive, worldwide agreement to license all intellectual property relating to APL-130277, a reformulation of an approved Parkinson's drug. The two parties also finalized an exclusive worldwide license that would result in the Corporation assuming product development and commercialization rights to APL-130277 from Adagio in return for development milestones and royalties to Adagio, including common shares of the Corporation. The Corporation issued 750,000 common shares at a price of $0.05 per share to Adagio. The license agreement includes an exclusive option period for the first 12 months which allows the Corporation to conduct further due diligence and proof-of-concept studies for APL-130277 prior to executing the full license. The Corporation can exercise the option within the first 12 months by issuing shares equal to a fair market value of $200,000 based on a price equal to the greater of the average of the Cynapsus shares for the 15 days prior to the exercise date or a price of $0.10 per share.

15. SUPPLEMENTARY CASH FLOW INFORMATION

	2010	2009
Income taxes paid	$ -	$ -
Interest paid	1,744	3,206
The following significant transactions did not generate or use cash:		
Common shares issued for services (Note 7(b)(v))	-	(60,287)
Common shares issued for debt	-	(114,000)
Warrants issued for share issue costs	-	(19,462)
Value of shares issued for debenture bonus shares (Note 13)	(141,680)	-

16. SUBSEQUENT EVENTS

a) On January 28, 2011, Cynapsus announced that it arranged a financing of secured debentures ("Secured Debentures") in the aggregate principal amount of $300,000. The Secured Debentures bear interest at a rate of 8% per annum and are secured by a security interest in the assets of the Corporation. The Secured Debentures are payable by Cynapsus on or before December 30, 2011. As part of the Financing, the Corporation paid an 8% capital discount to the debenture holders resulting in net proceeds to the Corporation of $276,000 and issued 1,104,000 common shares to the debenture holders.

b) On February 3, 2011, Cynapsus announced that it has closed a non-brokered private placement of units ("Units") effective February 2, 2011. Cynapsus issued an aggregate of 5,800,000 Units at a price of $0.05 per Unit raising gross proceeds of $290,000. Each Unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at a price of $0.10 for a period ending 24 months from the closing date. The common shares issued under the non-brokered private placement are subject to a hold period of four months expiring on June 1, 2011.

c) On February 26, 2011, 1,935,000 warrants exercisable at $0.15 per share expired unexercised.

d) On March 4, 2011 the Corporation granted stock options to acquire 750,000 common shares. The stock options were granted to a director, officers, employees and a consultant at an exercise price of $0.10 per share for a term of 5 years from date of grant.