CYNAPSUS THERAPEUTICS INC.

(formerly Cannasat Therapeutics Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")
OF OPERATING RESULTS AND FINANCIAL CONDITION
FOR THE THREE MONTHS ENDED MARCH 31, 2011

The following discussion and analysis of the operating results and financial position of Cynapsus Therapeutics Inc. ("Cynapsus" or "the Company") is for the three months ended March 31, 2011. This document should be read in conjunction with the unaudited interim condensed financial statements and accompanying notes, which have been prepared in accordance with International Reporting Standards ("IFRS"). The discussion and analysis within this MD&A is as of June 16, 2011.

Some of the statements contained in this Management's Discussion and Analysis of Financial Condition and Operating Results constitute forward-looking statements. These statements relate to future events or to Cynapsus' future financial performance and involve known and unknown risks, uncertainties and other factors that may cause Cynapsus' actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Additional information relating to the Corporation, including our audited financial statements and other statutory reports, are available at the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

All amounts are expressed in Canadian (CDN) dollars unless otherwise indicated.

Overview

Cynapsus is a specialty pharmaceutical company developing an improved dosing formulation of an approved drug used to treat the symptoms of Parkinson's disease. Parkinson's disease is a chronic and progressive neurodegenerative disease that impacts motor activity, and its prevalence is increasing with the aging of the population. It is estimated that between 25 percent and 50 percent of patients experience "off episodes" in which they have impaired movement or speaking capabilities. Current medications only control the disease's symptoms, and most drugs become less effective over time as the disease progresses.

Cynapsus' lead drug candidate, APL-130277, is an easy-to-administer, fast-acting and oral reformulation of an approved drug, apomorphine, used to rescue patients from off episodes.

Cynapsus is focused on rapidly maximizing the value of APL-130277 by completing pivotal studies in advance of a New Drug Application expected to be submitted in 2013 or 2014. The Company anticipates out-licensing to an appropriate pharmaceutical partner before such an application is submitted.

APL 130277 Background

In the United States alone, approximately 4 million new Americans will turn 65 each year for the next 19 years. This demographic is the primary age group for development of neurodegenerative diseases such as Alzheimer's and Parkinson's disease. It is estimated that there are approximately 6 million Parkinson's disease patients in the world today.

In the opinion of Management, discovery of disease modifying therapies for chronic brain conditions such as Parkinson's disease and Alzheimer's disease based on early diagnosis, genetic manipulation, and/or cell therapy are more than 10 to 15 years away. Further research will be required to make such therapies practical, economical, and broadly available. As a result, effective and economical therapies that relieve symptoms, such as APL 130277, will remain a mainstay in treating patients and will address substantial unmet medical needs.

For patients with Parkinson's disease, Apomorphine is a fast-acting, effective dopamine agonist to treat off episodes, i.e. periods when chronic Parkinson's patients experience impaired movement or speaking capabilities. Apomorphine is currently approved by the US Food and Drug Administration (FDA) and the European Medicines Agency (EMEA), but is currently only available by subcutaneous injection.

APL-130277 has the potential to be the first marketed convenient oral (sublingual) formulation of apomorphine, a drug proven to work even in the most severe cases of Parkinson's disease in which other drugs have diminished effect. APL-130277 is being developed as a once to three times a day rescue therapy, to be used adjunctive to levodopa combination therapies.

As a drug development project, APL-130277 has a lower risk profile than a New Chemical Entity given that the regulatory path is shorter and well-defined, the cost to an approvable New Drug Application (NDA) is relatively low (estimated at approximately $20 million), and the active compound has a well known efficacy and safety profile. If APL 130277 demonstrates "therapeutic equivalence" in its abbreviated 2 year clinical program, management believes that the Company, or a pharmaceutical partner, would be allowed under the US FDA regulations, to submit a New Drug Approval request, based on the 505b(2) criteria. These criteria would recognize the subcutaneous injection (NDA 21-264) as the reference listed drug to which APL 130277 would draw safety and efficacy data and would be compared by the US FDA.

REVIEW OF OPERATING RESULTS:

Operating, General and Administrative ("OG&A) Expense

For the three months ended March 31,

	2011	2010	$ change in 2011	% change in 2011
Operating, general and administrative	345,360	300,555	44,805	15

The increase in OG&A expense in the three month period ended March 31, 2011 compared to March 31, 2010 is primarily attributed to increases in accrued board and committee fees associated with the proposed Adagio Pharmaceuticals Ltd. transaction, increased in accounting fees related to IFRS transition, and the engagement of a US-based public relations firm.

Research and Development ("R&D") Expense

For the three months ended March 31,

	2011	2010	$ change in 2011	% change in 2011
Research and development	146,360	84,985	61,375	72

The increase in R&D expense for the three month period ended March 31, 2011 compared to March 31, 2010 is primarily due to increased spending on formulation development for APL 130277, preparation for a Pre-IND meeting with the US Food and Drug Administration, and work related to planning for human clinical studies that are scheduled to commence in H2 2011.

Loss Per Share

For the three months ended March 31,

	2011	2010	$ change in 2011	% change in 2011
Loss	603,701	435,907	167,794	28
Basic and diluted loss per share	0.01	0.01	0.00	0.00

The increase in the loss per share for the three month period ended March 31, 2011 compared to March 31, 2010 is primarily the result of an increase in research and development spending on APL 130277, increases in accrued board and committee fees associated with the proposed Adagio Pharmaceuticals Ltd. transaction, and increased accounting fees related to IFRS transition.

SUMMARY OF QUARTERLY RESULTS:

Quarterly Statements of Income:

For the three month period ended March 31, 2011 (in accordance with IFRS)

	Q1
Revenues	-
Interest income	-
Operating, general and administrative	345,000
Research and development	146,000
Net loss	604,000
Loss per share (basic and diluted)	0.01

For the year ended December 31, 2010 (in accordance with IFRS)

	Q1	Q2	Q3	Q4	2010 Total
Revenues	-	-	-	-	-
Interest Income	1,000	-	-	-	1,000
Operating, general and administrative	302,000	321,000	303,000	262,000	1,202,000
Research and development	85,000	64,000	168,000	137,000	454,000
Net loss	436,000	427,000	400,000	178,000	1,444,000
Loss per share (basic and diluted)	0.00	0.00	0.00	0.00	0.02

For the year ended December 31, 2009 (in accordance with Canadian GAAP)

	Q1	Q2	Q3	Q4	2009 Total
Revenues	-	-	-	-	-
Interest income	4,000	9,000	5,000	(5,000)	13,000
Operating, general and administrative	256,000	273,000	291,000	319,000	1,139,000
Research and development	245,000	228,000	49,000	94,000	616,000
Net loss	571,000	413,000	339,000	428,000	1,751,000
Loss per share (basic and diluted)	0.01	0.01	0.01	0.01	0.02

LIQUIDITY AND CAPITAL RESOURCES

The cash balance at March 31, 2011 was $364,537, compared to $193,484 at December 31, 2010. Since inception, cash requirements have been financed primarily through issuances of securities. In the past year, the Corporation has also raised capital through the issuance of secured debentures. Cynapsus anticipates future funding requirements to be met primarily through additional securities issuances, debentures, research and development tax credits, other potential sources of government funding, or a combination of the above.

The balance of accounts payable and accrued liabilities was $955,885 at March 31, 2011, compared to $835,035 at December 31, 2010.

The balance of debentures payable was $961,124 at March 31, 2011, compared to $668,826 at December 31, 2010.

The development of pharmaceutical products is a process that requires significant investment. Cynapsus expects to incur losses from operations for the near future. R&D expenses are expected to increase, including the expenses related to additions of personnel and clinical trials. General and administrative expenses are expected to increase in the future as the Company adds infrastructure and incurs additional costs.

Future cash requirements will depend on a number of factors, including the continued progress of R&D for the APL 130277 drug candidate, the timing and outcome of clinical trials and regulatory approvals, the ability to out-license drug candidates to partners, the timing of payments received or made under licensing or other agreements, the costs involved in preparing, filing, prosecuting maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the status of competitive products and the success of the Company in developing and maintaining markets for its products.

Operating Activities

For the three months ended March 31, 2011, operating activities used cash of $372,832 compared to $256,848 used in operations for the three months ended March 31, 2010.

Cash used in operating activities reflects the net loss of $603,701 for the three months ended March 31, 2011, adjusted for non-cash items including amortization of equipment and intangible assets, stock option compensation expenses, accretion and interest expenses for debentures, and changes in non-cash working capital. The increase in cash outflow in the three months ended March 31, 2011 is primarily due to the increase in research and development spending, which offset the reduction in stock option compensation expenses.

Financing Activities

For the three months ended March 31, 2011, net financing activities were $543,885 compared to $nil for the three months ended March 31, 2010. The Corporation raised $276,000 during the period ended March 31, 2011 through a debenture financing in January, and net proceeds of $267,885 through a private placement offering completed in February.

Shareholders' equity decreased to $(1,353,758) at March 31, 2011 from $(1,114,792) at December 31, 2010, as the total proceeds from securities and debenture financings in January and February were insufficient to offset the net loss for the period ended March 31, 2011.

Share Capital

The Corporation has authorized an unlimited number of common shares with no par value.

A summary of common shares, stock options and common share purchase warrants issued is as follows:

	as at June 16, 2011			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	102,103,219	-	-	9,398,167
Stock options	-	7,960,000	-	-
Common share purchase warrants	-	-	16,028,350	263,162
Total	102,103,219	7,960,000	16,028,350	9,661,329

A summary of common shares and number of shares issuable on exercise of stock options and warrants is as follows:

	as at June 16, 2011			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common	102,103,219	-	-	102,103,219
Stock options	-	9,510,000	-	9,510,000
Common share purchase warrants	-	-	16,028,350	16,028,350
Total	102,103,219	9,510,000	16,028,350	127,641,569

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements.

Changes in Accounting Policies

International Financial Reporting Standards ('IFRS")

The Company has adopted International Financial Reporting Standards ("IFRS") for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The accounting policies have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31, 2010 and in the preparation of an opening IFRS Balance Sheet at January 1, 2010 (the Company's date of transition).

IFRS 1 "First-time Adoption of International Financial Reporting Standards" generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company has elected under IFRS 1 to not apply the following:

- *IFRS 2, Share-Based Payments,* to equity instruments which vested before the Company's date of transition to IFRS.

- *IAS 23, Borrowing Costs,* prospectively from the date of transition, relating to the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

- *IAS 32 - Compound Financial Instruments*, to revalue compound financial instruments where the liability component does not exist as of the transition date.

- *IFRS 3 – Business Combinations,* option to apply retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the Transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

Adjustments on transition to IFRS

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change the Company's actual cash flows, it resulted in changes to the Company's Statement of Financial Position, Statement of Operations and Comprehensive Loss and Statement of Changes in Equity as set out below:

Share-based payments

On transition to IFRS the Company elected to change its accounting policy for the treatment of share-based payments, whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

Warrants

On transition to IFRS the Company elected to change its accounting policy for the treatment of warrants whereby amounts recorded for expired warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to transfer such amounts in contributed surplus.

Revenue and Expenses

Revenue is currently generated from interest received from short term deposits. Cynapsus expects longer-term revenues and profits to be generated from the commercialization of pharmaceutical products. These revenues are considered long-term as a result of the long lead times required to complete clinical trials and to receive regulatory approvals.

Research and development expenses consist primarily of vendor, personnel and related costs associated with the formulation development and clinical testing of the Corporation’s pharmaceutical product candidates.

General and administration costs consist of personnel and related costs associated with management, administration and finance functions, as well as professional fees, office rent, insurance and other corporate expenses.

Debenture Financing and Share Issuances

On January 28, 2011, Cynapsus announced that it completed a financing of Series C secured debentures in the aggregate amount of $300,000. The Secured Debentures bear interest at a rate of 8% per annum and is 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 $276,000 and issued 1,104,000 common shares to the debenture holders at a price of $0.05 per share.

Private Placement

On February 2, 2011, the Corporation, as part of a private placement, issued 5,800,000 units at a price of $0.05 per unit for gross proceeds of $290,000. Each unit consists 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 $0.10 per share for a period ending on February 2, 2013.

Warrant Expiry

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

Stock Option Issuances

On March 4, 2011, the Corporation granted stock options to acquire 750,000 common shares. The stock options were granted to officers and directors of the Corporation at an exercise price equal to $0.10 per share and with an expiry of 5 years. Of the total, 200,000 stock options was granted to each of Anthony Giovinazzo (President & CEO) and Andrew Williams (COO/CFO), 150,000 to Nathan Bryson (CSO), and 100,000 to Alan Ryley (Director).

Board of Directors

On March 22, 2011, Rochelle Stenzler, the current Chair of the Corporate Governance and Compensation Committee, was elected to the position of Chair of the Board. Ms. Stenzler replaced Mr. David Pattenden, who resigned as a director and Chairman for personal reasons. As a result, the 650,000 stock options previously granted to David Pattenden became fully vested and expire on March 22, 2012.

Related Party Transactions

At March 31, 2011, included in accounts payable and accrued liabilities is $244,238 (December 31, 2010 - $197,440) due to officers and directors of the Company. 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.

As at March 31, 2011, $45,533 (December 31, 2010 - $42,157) of the interest-bearing debentures are due to related parties.

The value of share-based awards issued to related parties during the three month period ended March 31, 2011 is $26,000 (Three month period ended March 31, 2010 - $19,250).

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.

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 $7,000 due within one month.

The Corporation has one contractual dispute for amounts totalling $38,000. 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.

Subsequent Events

(a) Proposed Adagio and Related Party Transaction

On April 26, 2010, Cynapsus entered into a preliminary agreement with Adagio Pharmaceuticals Ltd. ("Adagio") providing for the acquisition by Cynapsus of all of the issued and outstanding shares of Adagio in a share exchange (the "Proposed Transaction"). The acquisition would supersede and replace the License Option Agreement dated July 22, 2010 entered into by Cynapsus and Adagio with respect to the intellectual property owned by Adagio concerning the APL-130277 patent rights and know-how.

Terms of the Transaction

The Proposed Transaction will be structured as a share exchange with Adagio shareholders to receive newly issued common shares in the capital of Cynapsus (the "Common Shares") in exchange for all of the issued and outstanding shares of Adagio. The Adagio shareholders will be entitled to the following payments pursuant to the Proposed Transaction:

(i) a payment of $1,300,000 on closing, to be satisfied by the issuance of 26,000,000 Common Shares having a deemed value of $0.05 per share;

(ii) a payment of $1,500,000 conditional upon the successful completion of the APL-130277 phase 1 studies, to be satisfied by the issuance of Common Shares at a deemed value equal to the 30 day volume weighted average trading price ("VWAP") immediately prior to the first public announcement of the results of such studies, but may not be less than the "discounted market price"; and

(iii) a payment of $2,500,000 conditional upon the successful completion of the APL-130277 final pivotal study, to be satisfied by the issuance of Common Shares at a deemed value equal to the 30 day VWAP immediately prior to the first public announcement of the results of such study, but may not be less than the "discounted market price".

Related Party Transaction

The Proposed Transaction constitutes a "related party transaction" pursuant to Multilateral Instrument 61-101 and the policies of the Exchange (the "Related Party Requirements"). Anthony Giovinazzo, President and Chief Executive Officer of the Cynapsus, is also a director, officer and majority shareholder of Adagio. Steps have been

taken by the board of directors (the "Board") of Cynapsus to address any potential conflicts of interest, including but not limited to, the appointment of a special committee of the Board (the "Special Committee") and obtaining a fairness opinion from Torreya Capital ("Torreya"), a division of Financial West Investment Group, Inc., an independent US FINRA/SIPC registered financial advisor.

Torreya has advised that, based on the various assumptions and limitations set out in its opinion, the consideration to be paid to the shareholders of Adagio pursuant to the Proposed Transaction is fair from a financial point of view to the disinterested Cynapsus shareholders. The Special Committee concluded that the Proposed Transaction is in the best interests of Cynapsus and recommended approval to the Board. The Board concluded that the Proposed Transaction is in the best interests of Cynapsus.

Under the Related Party Requirements, the Proposed Transaction is required to be approved by a simple majority of disinterested shareholders. In addition, pursuant to the Related Party Requirements, if a transaction is a related party transaction, a formal valuation is required, unless exemptions from such requirements are available. By virtue of its listing on the Exchange, the Corporation is exempt from the valuation requirements with respect to the Proposed Transaction. The Annual and Special Meeting of Shareholders was held on May 31, 2011 in Toronto, Canada at which the Proposed Transaction was considered and approved by shareholders.

Closing Conditions

The closing of the Proposed Transaction is conditional upon, among other things, the following:

(i) Completion by the Corporation of satisfactory due diligence.

(ii) Completion by the Corporation of the Private Placement (as described below).

(iii) All necessary board, shareholder, regulatory and third party approvals.

(iv) Execution and delivery of a definitive purchase agreement and all other documentation required to effect the Proposed Transaction.

As noted above, completion of the Proposed Transaction is subject to a number of conditions, including Exchange acceptance and disinterested Cynapsus shareholder approval. The Proposed Transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the Proposed Transaction will be completed as proposed or at all.

Escrow Arrangements

The closing of the Proposed Transaction is conditional upon the closing of the Private Placement by Cynapsus in an amount of no less than $4 million. If the Private Placement

is completed for gross proceeds of less than $8 million, then a number of the Common Shares of Cynapsus to be delivered on closing will be subject to escrow arrangements with the Corporation. The number of shares that would be subject to escrow would be calculated by dividing the actual gross proceeds raised in the Private Placement by $8 million and then multiplying the resulting fraction by 26,000,000. The product of the multiplication would provide the number of Common Shares that would be delivered to the shareholders of Adagio at closing and the balance would be subject to escrow. The Common Shares subject to escrow would be released from escrow concurrent with the last closing of future equity financings by Cynapsus, that cumulatively (including the Private Placement) meet or exceed $8 million in the aggregate, provided that such Common Shares deliverable to Mr. Giovinazzo would be subject to the escrow arrangements described below.

All Common Shares issued to Mr. Giovinazzo will be subject to a separate and distinct contractual escrow to be entered into with a third party escrow agent. The escrow arrangement with Mr. Giovinazzo will provide, among other things, for the following escrow releases:

(i) 25% immediately; and

(ii) 25% on each of the first, second and third anniversaries of the closing of the Proposed Transaction.

Any of the Common Shares issued to Mr. Giovinazzo that were subject to the Private Placement escrow noted above shall be released from the contractual escrow as if such shares had been delivered at closing.

In the event of a sale of the Corporation, including but not limited to a sale of substantially all of the assets of the Corporation, a merger or acquisition or a plan of arrangement, or whereby a new controlling shareholder is established, all shares then remaining in escrow would be immediately released.

The foregoing is in addition to any escrow that may be imposed by the Exchange.

Private Placement

Cynapsus intends to complete a brokered private placement (the "Private Placement") of units ("Units") of between $4,000,000 and $10,000,000 in connection with the Proposed Transaction. As previously announced, Summer Street Research Partners was retained by Cynapsus to provide financial and advisory services and will act as the Corporation's placement agent for the Private Placement. The Corporation may, at its discretion, increase the size of the Private Placement.

The terms of the Private Placement were updated in the press release of May 25, 2011 (see (b) below).

Any securities to be issued will be subject to a hold period of four months from the closing date in accordance with the rules and policies of the Exchange and applicable Canadian securities laws and such other further restrictions as may apply under foreign securities laws.

The Corporation intends to use the proceeds from the Private Placement to fund ongoing research and development activities relating to the APL-132077 project, for working capital and to satisfy current liabilities.

Closing of Proposed Transaction and Private Placement

There can be no assurance that the Proposed Transaction or Private Placement will be completed as proposed or at all. It is currently anticipated that the Proposed Transaction and Private Placement will be completed on or around June 30, 2011.

(b) Proposed Private Placement

On May 25, 2011, the Company signed a term sheet with a Health Care / Life Sciences focused Institutional Investment Group (the "Lead Investor") to be the lead investor in a private placement offering of $10 million of its common shares and warrants (the "Offering"). The Lead Investor and certain of the Lead Investor's limited partners will purchase $3.5 million of the Offering. Upon successful completion of a Phase 1 Milestone by March 31, 2012, an additional maximum $9.375 million may be received through the exercise of warrants, making the total potential gross proceeds of the Offering at $19.375 million.

Under the term sheet, immediately prior to the closing, the Company will complete a 20:1 share consolidation, subject to TSX Venture Exchange (the "Exchange") and minority shareholder approval, which was voted and approved at the Annual and Special Shareholders Meeting held on May 31, 2011.

The Company will offer up to $10 million of Units. Pricing per Unit will be equal to the lower of (i) the arithmetic average of the prior 10 day volume weighted average trading prices of the common shares as of the date of the term sheet and (ii) the arithmetic average of the prior 10 day volume weighted average trading prices of the common shares as of the date of the Closing, but in all events not less than the Discounted Market Price ($0.80) and not more than the Market Price ($1.00), as defined in the policies of the Exchange on a post consolidation basis.

Each Unit will consist of one common share, 0.50 of a share purchase warrant (the "A Warrants"), and 0.50 of a share purchase warrant (the "B Warrants"). Each full A Warrant will entitle the holder to purchase one common share at a price equal to $1.25 of the Offering Price on a post consolidation basis, subject to compliance with the policies of the Exchange. The warrants will be exercisable for a 5 year period and will have a cashless exercise feature.

Each full B Warrant will entitle the holder to purchase one common share at a price equal to $1.50 on a post consolidation basis, subject to compliance with the policies of the Exchange. The B Warrants will be exercisable for a period equal to the lesser of five years and 30 days after the first press release announcing satisfaction of the Phase I Milestone, but in no circumstances will the B Warrants expire in less than five years if the Phase 1 Milestone is not achieved and reported to the public by March 31, 2012. Achievement of the Phase 1 Milestone means the successful completion of the first healthy volunteer Single Ascending Dose ("SAD") study, where the test article is APL-130277, a sublingual thin film strip utilizing Apomorphine as the active pharmaceutical ingredient. The B Warrants may only be exercised for cash.

The Lead Investor and certain of the Lead Investor's limited partners will purchase $3.5 million of the Offering. Other investors mutually acceptable to the Lead Investor and the Company will be given the opportunity to purchase the balance of the Securities. The private placement is subject to customary closing conditions and is expected to close on or around June 30, 2011.

US Registration

The securities to be sold in the private placement have not been registered under the Securities Act of 1933, as amended, or state securities laws and may not be offered or sold in the United States absent registration with the Securities and Exchange Commission or an applicable exemption from the registration requirements.

The Company will, at its expense, file the appropriate Registration Statement for the resale of the common stock within 90 days of the date of the first press release announcing satisfaction of the Phase I Milestone. Investors will be entitled to liquidated damages in the amount of 2% of the consideration paid for their Securities per month for each month or part thereof that such Registration Statement is not effective within 180 days of the press release, provided no amount may be paid for damages which together with reimbursable offering costs would reduce the Offering Price for the Securities below the Discounted Market Price.

Any securities to be issued will be subject to a hold period of four months from the closing date in accordance with the rules and policies of the Exchange and applicable Canadian securities laws and such other further restrictions as may apply under foreign securities laws.

New Control Person

After the closing of the Offering, one or more investors may hold more than 20% of the outstanding voting shares of the Company, thereby creating a New Control Person. "Control Person" is defined by the Exchange as "any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an Issuer so as to affect materially the control of that Issuer, or that holds more than 20% of the outstanding Voting Shares of an Issuer except where there is evidence showing that

the holder of those securities does not materially affect the control of the Issuer." As a result, the private placement is subject to shareholder approval by way of written consent, which must be obtained on or before the closing of the Offering. If a New Control Person is created as a result of the Offering, a further press release will be issued disclosing the investor and the nature and size of their investment.

Any securities to be issued will be subject to a hold period of four months from the closing date in accordance with the rules and policies of the Exchange and applicable Canadian securities laws and such other further restrictions as may apply under foreign securities laws.

The Corporation intends to use the proceeds from the Private Placement to fund ongoing research and development activities relating to the APL-132077 project, for working capital and to satisfy current liabilities.

(c) Debenture Financing

On May 26, 2011, Cynapsus announced that it completed a financing of Series D secured debentures in the aggregate amount of $500,000. 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 holder resulting in net proceeds to the Corporation of $460,000 and issued 1,840,000 common shares to the debenture holders at a price of $0.05 per share.

(d) Expiry of Stock Options

On May 31, 2011, Donald Ziraldo ceased to be a Director as he was not re-nominated at the Annual and Special Meeting of Shareholders held on May 31, 2011. As a result, the 550,000 stock options previously granted to Donald Ziraldo became fully vested and expire on May 31, 2012.

RISKS AND UNCERTAINTIES

An investment in the Corporation involves significant risks and must be considered speculative due to the nature of the Corporation's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to Cynapsus or that Cynapsus believes to be immaterial may also adversely affect Cynapsus' business.

Availability of Additional Financing: The Corporation incurred a net loss of $603,701 for the three months ended March 31, 2011 and expects to incur losses from continuing operations for the near future. As at March 31, 2011, the Corporation had cash and cash equivalents of $364,537. The Corporation does not expect these funds will be sufficient to fund current product development and operating costs beyond the next six months. The Corporation is currently seeking to raise additional capital through the issuance of shares and warrants. The ability of the Corporation to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation, particularly given the current challenging economic environment. If adequate funds are not available, or are not available on acceptable terms, the Corporation may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

To date, the Corporation has financed its business primarily through equity issuances tied to the achievement of key milestones. The Corporation has a strong track record of raising capital and since August 2004 has been successful in raising over $10 million from the completion of ten private placement financings, a short form prospectus offering and four debenture financings. The most recent financings were completed in January, February and May 2011. In July 2010, the Corporation announced the signing of a License Option Agreement with Adagio Pharmaceuticals for a Parkinson's disease drug candidate, which is expected to assist with current capital raising efforts.

Product Development: The Corporation carries on business in the pharmaceutical drug development industry. The development of pharmaceutical products is a process that requires large investments and can take years to complete. This multi-year process involves a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Many unforeseen efficacy and toxicity issues may arise throughout the process. While the Corporation will attempt to develop safe and effective drug products, it is nonetheless an early stage corporation with products which are still undergoing development. Animal tests provide preliminary safety and efficacy data but can never duplicate the behaviour of the product in continuous use in humans. As such, many efficacy and toxicity issues that arise in humans will not be known until after the human clinical testing begins. Negative effects seen in these trials may require the Corporation to make significant new investments in technology or withdraw from the specific drug development project altogether.

Regulatory Approval Process: A variety of laws and regulations govern the development, marketing and use of drugs. The Corporation's products will require governmental approvals, none of which has yet been obtained. Pre-clinical activities and clinical trials of new drugs are subject to the rigorous testing and approval processes of Health Canada and other regulatory agencies. The approval of new drugs is expensive and can be a multi-year process in which success is predicated on demonstrating that the candidate drug is safe and effective. The Corporation cannot offer any guarantees that all or any of its products will meet all regulatory requirements within a reasonable period of time, if at all. Data obtained from pre-clinical or clinical testing is susceptible to varying interpretations which can delay, limit, or prevent, regulatory approval. The pharmaceutical products being developed by the Corporation involve molecules which are controlled substances and may delay the approval process. Any failure or delay in obtaining regulatory approvals could adversely affect the market for any products the Corporation develops and therefore its business, results of operations, financial condition and cash flows.

Patent Applications: The Corporation's success will depend, in part, on its ability to obtain patents, protect trade secrets and operate without infringing upon the exclusive rights of third parties. Although the Corporation intends to file patent applications in Canada and possibly other jurisdictions, there is no guarantee that it will obtain such patents or that it will develop patentable products. Moreover, there is no proof that any patent that is granted to the Corporation will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to the Corporation's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Corporation's products, that they will not imitate any of its products or that, if the Corporation obtains its patents, its competitors will not manufacture products designed to circumvent the exclusive patent rights granted to it.

Potential Infringement on Third Party Patents: If a competitor were to assert that the Corporation’s products infringe on their patent or other intellectual property rights, substantial litigation costs could be incurred and the Corporation may be required to pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume significant financial resources, but would also divert management's time and attention. Such claims could also cause customers or potential customers to purchase competitors' products or defer or limit their purchase or use of the affected products until resolution of the claim. If any of the Corporation’s products are found to violate third-party intellectual property rights, it may have to re-engineer one or more of its products, or may have to obtain licenses from third parties to continue offering its products without substantial re-engineering. The Corporation’s efforts to re-engineer or obtain licenses could require significant expenditures and may not be successful.

Dependence on Third Parties: Due to the complexity of the process of developing therapeutics, the Corporation's business will depend on arrangements with pharmaceutical companies, corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, technology rights, manufacturing, marketing and commercialization of its products. The Corporation’s license agreements could obligate it to diligently bring potential products to market, make milestone payments and royalties that, in

some instances, could be substantial, and incur the costs of filing and prosecuting patent applications. There can be no assurance that the Corporation will be able to establish or maintain collaborations that are important to its business on favorable terms, or at all. A number of risks arise from the Corporation's dependence on collaborative agreements with third parties. Product development and commercialization efforts could be adversely affected if any collaborative partner terminates or suspends its agreement with the Corporation, causes delays, fails to on a timely basis develop or manufacture in adequate quantities a substance needed in order to conduct clinical trials, fails to adequately perform clinical trials, decides not to develop, manufacture or commercialize a product to which it has rights, or otherwise fails to meet its contractual obligations. The Corporation's collaborative partners could pursue other technologies or develop alternative products that could compete with the products the Corporation is developing. Any disruption with any partner, licensee or licensor could adversely affect the Corporation's product development efforts and therefore its business, results of operations, financial condition and cash flows.

Dependency on Management and Key Consultants and Employees: The Corporation's operations are dependent on the abilities, experience and efforts of its management, consultants, advisors and other key employees. Should any of these persons be unable or unwilling to continue in their employment or arrangement with the Corporation, this could have a material adverse effect on the Corporation's business, financial condition and results of its operations. The Corporation does not have key man insurance on the lives of these personnel. In addition, substantial competition exists for qualified technicians and personnel in the pharmaceutical drug development industry, and the Corporation may be unable to attract or retain highly qualified personnel in the future to meet its needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur. Any failure to attract qualified personnel may materially adversely affect the business, financial condition or results of operations of the Corporation.

Competition: Competition within the pharmaceutical drug development industry is intense and is expected to increase in the future. The Corporation's competitors have long operating histories and greater financial, technical and marketing resources than the Corporation. The introduction of new drugs similar to those being developed by the Corporation by such competitors could materially and adversely affect the Corporation's business, results of operations and financial condition. There can be no assurance that the Corporation will be able to respond effectively, or in a timely manner, to the various competitive factors affecting its industry.

Volatility of Trading Market for Cynapsus' Common Shares: The volatility of Cynapsus' share price may affect the trading market for Cynapsus' common shares. There can be no assurance that an active trading market for the common shares will be sustained. Our share price could fluctuate significantly in the future for a number of reasons, including, among others, future announcements concerning Cynapsus, quarterly variations in operating results, the introduction of competitive products, reports of results of clinical trials, regulatory developments, and intellectual property developments.

In addition, stock markets, in general, and the market for shares of biotechnology and life science companies, in particular, have experienced extreme price and volume fluctuations in recent years that may be unrelated to the operating performance or prospects of the affected companies. These broad market fluctuations may affect the market price of Cynapsus' common shares.

Additional Information:

For additional information with respect to certain of these and other factors, refer to the Annual Information Form dated May 15, 2009 and the Management Information Circular dated January 18, 2006 filed on the System for Electronic Document Analysis and Retrieval at www.sedar.com.

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