

# **CYNAPSUS THERAPEUTICS INC.**

**(Formerly Cannasat Therapeutics Inc.)**

## **Condensed Interim Financial Statements For the Three Months Ended March 31, 2011 (Expressed in Canadian Dollars)**

### **Unaudited**

#### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**CYNAPSUS THERAPEUTICS INC.**  
**Condensed Unaudited Interim Statements of Financial Position**

As at March 31, 2011, December 31, 2010 and January 1, 2010  
(in Canadian dollars)

	NOTES	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		364,537	193,484	483,197
Prepaid expenses and other current assets		52,859	46,262	113,903
		417,396	239,746	597,100
Non-current assets				
Equipment	7	9,743	10,434	14,249
Intangible assets	8	136,112	138,889	150,000
		563,251	389,069	761,349
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	9	955,885	835,035	765,491
Debentures payable	10	961,124	668,826	-
		1,917,009	1,503,861	765,491
<b>SHAREHOLDERS' DEFICIENCY</b>				
Share capital	11	9,398,167	9,140,310	8,961,130
Equity reserves				
Warrants	11	263,162	236,183	294,444
Share-based payments	11	867,059	849,469	826,472
(Deficit)		(11,882,146)	(11,340,754)	(10,086,188)
		(1,353,758)	(1,114,792)	(4,142)
		563,251	389,069	761,349

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

APPROVED BY THE BOARD:

\_\_\_\_\_, Director  
"Ronald Hosking"

\_\_\_\_\_, Director  
"Rochelle Stenzler"

**CYNAPSUS THERAPEUTICS INC.**  
**Condensed Unaudited Interim Statements of Operations and**  
**Comprehensive Loss**

**Three month periods ended March 31, 2011 and 2010**  
(in Canadian dollars)

	NOTES	March 31, 2011 \$	March 31, 2010 \$
<b>EXPENSES</b>			
Operating, general and administrative		345,360	300,555
Research and development		146,360	84,985
Share-based payments	11	25,090	50,595
Amortization of intangible assets	8	2,777	2,777
Depreciation of equipment	7	691	954
Foreign exchange (gain)		(4,711)	(3,468)
Operating (loss) for the period		(515,567)	(436,398)
Interest income		-	990
Finance costs	10	(88,058)	-
Other interest and related charges		(76)	(499)
<b>(Loss) and (comprehensive loss) for the period</b>		<b>(603,701)</b>	<b>(435,907)</b>
Basic and diluted loss per share		(0.01)	(0.01)
Weighted average number of shares outstanding		97,793,086	89,665,219

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

**Condensed Unaudited Interim Statements of Changes in Equity**

As at January 1, 2010, March 31, 2010, December 31, 2010 and March 31, 2011  
(in Canadian dollars)

	Share Capital	Equity Reserves - Warrants	Equity Reserves - Share- Based Payments	Deficit	Total
	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2010</b>	<b>8,961,130</b>	<b>294,444</b>	<b>826,472</b>	<b>(10,086,188)</b>	<b>(4,142)</b>
Expiry of warrants	-	(58,261)	-	58,261	-
Share-based payments	-	-	50,595	-	50,595
Comprehensive loss for the period	-	-	-	(435,907)	(435,907)
Activity from January 1 to March 31, 2010	-	(58,261)	50,595	(377,646)	(385,312)
<b>Balance as at March 31, 2010</b>	<b>8,961,130</b>	<b>236,183</b>	<b>877,067</b>	<b>(10,463,834)</b>	<b>(389,454)</b>
Debenture issuance, value of shares	141,680	-	-	-	141,680
License option agreement, value of shares	37,500	-	-	-	37,500
Expiry of stock options	-	-	(130,084)	130,084	-
Share-based payments	-	-	102,486	-	102,486
Comprehensive loss for the period	-	-	-	(1,007,004)	(1,007,004)
Activity from April 1 to December 31, 2010	179,180	-	(27,598)	(876,920)	(725,338)
<b>Balance as at December 31, 2010</b>	<b>9,140,310</b>	<b>236,183</b>	<b>849,469</b>	<b>(11,340,754)</b>	<b>(1,114,792)</b>
Private placements, value of shares	186,097	-	-	-	186,097
Private placements, value of warrants	-	81,788	-	-	81,788
Debenture issuance, value of shares	71,760	-	-	-	71,760
Expiry of warrants	-	(54,809)	-	54,809	-
Expiry of stock options	-	-	(7,500)	7,500	-
Share-based payments	-	-	25,090	-	25,090
Comprehensive loss for the period	-	-	-	(603,701)	(603,701)
Activity from January 1 to March 31, 2011	257,857	26,979	17,590	(541,392)	(238,966)
<b>Balance as at March 31, 2011</b>	<b>9,398,167</b>	<b>263,162</b>	<b>867,059</b>	<b>(11,882,146)</b>	<b>(1,353,758)</b>

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

**CYNAPSUS THERAPEUTICS INC.**  
**Condensed Unaudited Interim Statements of Cash Flows**

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**Three month periods ended March 31, 2011 and 2010**  
(in Canadian dollars)

	NOTE	March 31, 2011	March 31, 2010
		\$	\$
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Loss for the period		(603,701)	(435,907)
Items not affecting cash:			
Share-based payments	11	25,090	50,595
Amortization of intangible assets	8	2,777	2,777
Depreciation of equipment	7	691	954
Debenture accretion expense	10	67,478	-
Accrual of debenture interest expense	10	20,580	-
		(487,085)	(381,581)
Changes in non-cash operating items:			
Change in prepaid expenses and other current assets		(6,597)	32,066
Change in accounts payables and accrued liabilities		120,850	92,667
<b>Net cash generated (used in) operating activities</b>		<b>(372,832)</b>	<b>(256,848)</b>
<b>Financing activities</b>			
Gross proceeds from issuance of shares and warrants	11	290,000	-
Issuance costs of shares and warrants	11	(22,115)	-
Proceeds from issuance of debenture	10	276,000	-
<b>Net cash generated from financing activities</b>		<b>543,885</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>171,053</b>	<b>(256,848)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>193,484</b>	<b>483,197</b>
<b>Cash and cash equivalents, end of period</b>		<b>364,537</b>	<b>226,349</b>
Cash and cash equivalents consist of:			
Cash		364,537	43,305
Cash equivalents		-	183,044
		364,537	226,349

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)

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

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**1. NATURE OF OPERATIONS**

Cynapsus Therapeutics Inc. (“Cynapsus” or the “Company”) is a specialty pharmaceutical company developing an improved dosing formulation of an approved drug used to treat the symptoms of Parkinson’s disease. The Company’s shares are listed (CTH: TSX-V) on the TMX Group Inc.’s TSX Venture Exchange located in Toronto, Ontario, Canada. Cynapsus is incorporated under the Business Corporations act of Ontario. The head office, principal address, registered address and records office of the Corporation are located at 828 Richmond Street, Toronto, Ontario, Canada, M6J 1C9. On April 15, 2011, the Company changed its name to Cynapsus Therapeutics Inc.

**2. BASIS OF PREPARATION AND ADOPTION OF IFRS**

These are the Company's first IFRS condensed interim financial statements for the first quarter of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) to IFRS is explained in Note 5.

On June 16, 2011, the Board of Directors authorized these condensed interim financial statements for filing and release.

These condensed interim financial statements have been prepared on a historical cost basis. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim financial statements were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements.

The accounting policies set out in Note 4 have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (Note 5) for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these condensed interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future, and other key sources of estimation uncertainty as of the date of the statement of financial position that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year arise in connection with the valuations of share-based compensation and share purchase warrants, the determination of impairment of intangible assets and the valuation of tax accounts. The Company determines whether intangible assets are impaired if there is an indication of impairment and this requires an estimation of future cash flows and application of a suitable discount rate.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these interim financial statements are described below.

**Basis of measurement and going concern**

These financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

**Foreign currency translation**

The financial statements are presented in Canadian dollars, which is the Company's functional currency. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are translated using the rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the determination of income (loss) for the period.

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash equivalents are included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.
- (ii) **Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other gains and losses.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)**

- (iii) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and other current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (iv) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include accounts payable and accrued liabilities and debentures payable. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method. The carrying amount of debentures payable approximate fair value as the interest rate approximates the current rate for similar instruments. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**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.

**Prepaid expenses and other current assets**

Prepaid expenses consist of amounts paid in advance for items that have future value to the Company. Other current assets consist of amounts due from interest receivable and tax credits receivable.



**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Equipment**

Equipment is recorded at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of equipment comprises its purchase price. The useful lives of equipment are reviewed at least once per year. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Equipment is depreciated using the diminishing balance method based on their estimated useful lives as follows:

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

**Intangible assets**

Intangible assets comprise a license for intellectual property that expires when the last patent expires. The asset is recorded at cost and is amortized on a straight line basis over an estimated useful life of 18 years and any accumulated impairment losses.

**Impairment of non-financial assets**

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

**Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

**Share capital**

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****Research and development costs**

The Company conducts research and development programs and incurs costs related to these activities, including employee compensation, materials, professional services and services provided by contract research organizations. Research and development costs, net of contractual reimbursements from development partners, are expensed in the periods in which they are incurred.

**General Provisions**

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations and comprehensive loss of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Employee entitlements**

Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

**Income taxes**

Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Tax on income for interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

**Share-based compensation**

The Company has a stock option plan that is described in Note 11(iv). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is applied to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit.

**Government grants**

Government grants are recognized as Recovery on scientific research when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)****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 periods ended March 31, 2011 and 2010.

**Accounting standards issued but not yet applied****(i) International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")**

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

**(ii) Amendments to IFRS 7 Financial Instruments: Disclosures**

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

The Company has not applied the new and revised standards in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for IFRS 9, which becomes mandatory for the Company's 2013 financial statements and is expected to impact classification and measurement of financial assets. The extent of the impact has not yet been determined.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**5. TRANSITION TO IFRS**

As stated in Note 2, these are the Company's first condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in Note 4 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" (IFRS 1)**

IFRS 1 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:

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

**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.

Impact on Statements of Financial Position			
	January 1, 2010	March 31, 2010	December 31, 2010
Reserve - Share-based payments	826,472	877,067	849,469
Contributed surplus	(1,275,985)	(1,326,464)	(1,425,937)
(Deficit)	449,513	449,513	579,597

**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.

Impact on Statements of Financial Position			
	January 1, 2010	March 31, 2010	December 31, 2010
Contributed surplus	(565,611)	(623,872)	(623,872)
(Deficit)	565,611	623,756	620,743

**Reconciliation to previously reported financial statements**

A reconciliation of the above noted changes is included in the following Statements of Financial Position and Statements of Operations and Comprehensive Loss. The effects of transition from Canadian GAAP to IFRS on the cash flow are immaterial. Therefore, a reconciliation of cash flows has not been presented.

- Reconciliation of statement of financial position as of January 1, 2010.
- Reconciliation of statement of operations and comprehensive loss for the three months ended March 31, 2010.
- Reconciliation of statement of financial position as of March 31, 2010.
- Reconciliation of statement of operations and comprehensive loss for the twelve months ended December 31, 2010.
- Reconciliation of statement of financial position as of December 31, 2010.

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

## Reconciliation of statement of financial position as of January 1, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	483,197	-	-	483,197
Prepaid expenses and other current assets	113,903	-	-	113,903
	597,100	-	-	597,100
Non-current assets				
Equipment	14,249	-	-	14,249
Intangible assets	150,000	-	-	150,000
	761,349	-	-	761,349
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	765,491	-	-	765,491
Debentures payable	-	-	-	-
	765,491	-	-	765,491
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8,961,130	-	-	8,961,130
Equity reserves				
Warrants	294,444	-	-	294,444
Share-based payments	-	-	826,472	826,472
Contributed Surplus	1,841,596	-	(1,841,596)	-
(Deficit)	(11,101,312)	-	1,015,124	(10,086,188)
	(4,142)	-	-	(4,142)
	761,349	-	-	761,349

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

## Reconciliation of statement of operations and comprehensive loss for the three months ended March 31, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
<b>REVENUES</b>	990	-	(990)	-
<b>EXPENSES</b>				
Operating, general and administrative	297,586	-	2,969	300,555
Research and development	84,985	-	-	84,985
Share-based payments	50,479	116	-	50,595
Amortization of intangible assets	2,777	-	-	2,777
Depreciation of equipment	954	-	-	954
Foreign exchange (gain)	-	-	(3,468)	(3,468)
<b>Expenses</b>	436,781	116	(499)	436,398
<b>Operating profit (loss) for the period</b>	(435,791)	(116)	(491)	(436,398)
Interest income	-	-	990	990
Finance costs	-	-	-	-
Other interest and related charges	-	-	(499)	(499)
<b>Comprehensive (loss) for the period</b>	(435,791)	(116)	-	(435,907)

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

## Reconciliation of statement of financial position as of March 31, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	226,349	-	-	226,349
Prepaid expenses and other current assets	81,837	-	-	81,837
	308,186	-	-	308,186
Non-current assets				
Equipment	13,295	-	-	13,295
Intangible assets	147,223	-	-	147,223
	468,704	-	-	468,704
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	858,158	-	-	858,158
Debentures payable	-	-	-	-
	858,158	-	-	858,158
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8,961,130	-	-	8,961,130
Equity reserves				
Warrants	236,183	-	-	236,183
Share-based payments	-	50,595	826,472	877,067
Contributed Surplus	1,950,336	(50,479)	(1,899,857)	-
(Deficit)	(11,537,103)	(116)	1,073,385	(10,463,834)
	(389,454)	-	-	(389,454)
	468,704	-	-	468,704



## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

## Reconciliation of statement of operations and comprehensive loss for the twelve months ended December 31, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
<b>REVENUES</b>	1,015		(1,015)	-
<b>EXPENSES</b>				
Operating, general and administrative	1,188,360	-	7,912	1,196,272
Research and development	454,027	-	-	454,027
Share-based payments	149,952	3,129	-	153,081
Amortization intangible assets	11,111	-	-	11,111
Depreciation of equipment	3,815	-	-	3,815
Foreign exchange (gain)	-	-	(9,656)	(9,656)
Recovery on scientific research	(135,780)	-	-	(135,780)
Forgiveness of debt	(230,688)	-	-	(230,688)
<b>Expenses</b>	1,440,797	3,129	(1,744)	1,442,182
<b>Operating profit (loss) for the period</b>	(1,439,782)	(3,129)	729	(1,442,182)
Interest income	-	-	1,015	1,015
Finance costs	-	-	-	-
Other interest and related charges	-	-	(1,744)	(1,744)
<b>Comprehensive (loss) for the period</b>	(1,439,782)	(3,129)	-	(1,442,911)

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

## 5. TRANSITION TO IFRS (continued)

## Reconciliation of statement of financial position as of December 31, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	193,484	-	-	193,484
Prepaid expenses and other current assets	46,262	-	-	46,262
	239,746	-	-	239,746
Non-current assets				
Equipment	10,434	-	-	10,434
Intangible assets	138,889	-	-	138,889
	389,069	-	-	389,069
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	835,035	-	-	835,035
Debentures payable	668,826	-	-	668,826
	1,503,861	-	-	1,503,861
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	9,140,310	-	-	9,140,310
Equity reserves				
Warrants	236,183	-	-	236,183
Share-based payments	-	153,081	696,388	849,469
Contributed Surplus	2,049,809	(149,952)	(1,899,857)	-
(Deficit)	(12,541,094)	(3,129)	1,203,469	(11,340,754)
	(1,114,792)	-	-	(1,114,792)
	389,069	-	-	389,069

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**6. RISK MANAGEMENT****Financial risk management**

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse affects on the Company's financial performance.

**(i) Credit risk**

The Company's cash balance is on deposit with a Canadian chartered bank. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in other current assets 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.

**(ii) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due (See Note 4, Significant Accounting Policies, Basis of measurement and going concern). As at March 31, 2011, the Company had cash and cash equivalents of \$364,537 and prepaid expenses and other current assets of \$52,859 (December 31, 2010 - \$193,484 and \$46,262) to settle current liabilities of \$1,917,009 (December 31, 2010 - \$1,503,861). The Company'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 debentures payable are disclosed in Note 10. The Company 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 \$4,000.

**Market risk****(i) Interest rate risk**

The Company has cash and cash equivalent balances and debentures payable as at March 31, 2011. The Company'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 Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments are short term and the debentures have a fixed rate of interest. As at March 31, 2011, the Company has \$1,100,000 in debentures bearing 8% interest per annum. A debenture of \$100,000 plus interest is due and payable before July 29, 2011 and debentures totalling \$1,000,000 plus interest are due and payable before December 30, 2011.

**(ii) Foreign currency risk**

The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company 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 Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

**(iii) Price risk**

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

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**6. RISK MANAGEMENT (continued)****(iv) Fair value**

International Financial Reporting Standards require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Corporation has designated its cash equivalents as held-for-trading, measured at fair value. Cash and other current assets 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, other current assets 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 that have been classified as Level 2 within the fair value hierarchy.

**Capital risk 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 structure consists of share capital and equity reserves. 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 period ended March 31, 2011. The Corporation is not subject to externally imposed capital requirements.

**CYNAPSUS THERAPEUTICS INC.**  
**Notes to the Condensed Unaudited Interim Financial Statements**  
**March 31, 2011**  
(in Canadian dollars)

**7. EQUIPMENT**

The following is a summary of equipment as at March 31, 2011 and December 31, 2010:

	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>Total</b>
	\$	\$	\$
<b>Cost</b>			
Cost at January 1, 2010, December 31, 2010 and March 31, 2011	15,270	9,318	24,588
<b>Accumulated depreciation</b>			
Accumulated depreciation at January 1, 2010	5,613	4,726	10,339
Depreciation	2,897	918	3,815
Accumulated depreciation at December 31, 2010	8,510	5,644	14,154
Depreciation	507	184	691
Accumulated depreciation at March 31, 2011	9,017	5,828	14,845
<b>Net book value</b>			
Net book value as at January 1, 2010	9,657	4,592	14,249
Net book value as at December 31, 2010	6,760	3,674	10,434
Net book value as at March 31, 2011	6,253	3,490	9,743

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

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**8. INTANGIBLE ASSETS**

On June 10, 2005, the Company entered into a license agreement with a research and development company. The license is for patents that have been issued in certain jurisdictions and are currently pending in others.

	<b>License Agreement</b>
	\$
<b>Cost</b>	
Cost at January 1, 2010, December 31, 2010, and March 31, 2011	200,000
<b>Accumulated amortization</b>	
Balance at January 1, 2010	50,000
Amortization	11,111
Balance at December 31, 2010	61,111
Amortization	2,777
Balance at March 31, 2011	63,888
<b>Net book value</b>	
Net book value as at January 1, 2010	150,000
Net book value as at December 31, 2010	138,889
Net book value as at March 31, 2011	136,112

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The following is a summary of accounts payable and accrued liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	\$	\$	\$
Trade payables	658,907	595,075	505,648
Due to related parties (Note 12)	244,328	197,440	98,560
Accrued liabilities	32,650	22,520	81,283
Provision for disputes (Note 14)	20,000	20,000	80,000
	955,885	835,035	765,491

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

(in Canadian dollars)

**10. DEBENTURES PAYABLE**

The debentures bear interest at a rate of 8% per annum and are secured by security interests in the assets of the Company as follows:

Debentures	Face Value \$	Net Proceeds \$	Issue Date	Due Date	Priority Rank on Future License Fees	Priority Rank on All Other Assets
Series A	700,000	644,000	July 19, 2010 and July 26, 2010	December 30, 2011	2nd	1st
Series B	100,000	92,000	November 24, 2010	July 29, 2011	1st	1st
Series C	300,000	276,000	January 28, 2011	December 30, 2011	2nd	1st
	1,100,000	1,012,000				

The changes in debentures payable from January 1, 2010 to March 31, 2011 are as follows:

	Debentures \$
<b>Balance as at January 1, 2010, March 31, 2010 and June 30, 2010</b>	-
Debentures issuances, July 1, 2010 to December 31, 2010	
Face value	800,000
8 % Capital discount	(64,000)
	736,000
Value of shares issued as debenture bonus shares, July 1, 2010 to December 31, 2010	(141,680)
	594,320
Debenture accretion expense, July 1, 2010 to December 31, 2010	48,336
Accrual of debenture interest expense, July 1, 2010 to December 2010	26,170
<b>Balance as at December 31, 2010 (Face Value \$800,000)</b>	668,826
Debenture, January 28, 2011	
Face value	300,000
8 % Capital discount	(24,000)
	276,000
Value of 1,104,000 shares issued as debenture bonus shares (\$0.05/share)	(71,760)
	204,240
Debenture accretion expense during the three month period	67,478
Accrual of debenture interest expense during the three month period	20,580
<b>Balance as at March 31, 2011 (Face Value \$1,100,000)</b>	961,124

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**10. DEBENTURES PAYABLE (continued)**

As at March 31, 2011, \$45,533 (December 31, 2010 - \$42,157) of the interest-bearing debentures are due to related parties. See Note 12.

The following is a summary of finance costs as at March 31, 2011 and March 31, 2010:

	<b>Three Month Period Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Debenture accretion	67,478	-
Debenture interest	20,580	-
	88,058	-
Other interest and charges	76	499
Finance costs	88,134	499



**CYNAPSUS THERAPEUTICS INC.**  
**Notes to the Condensed Unaudited Interim Financial Statements**  
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**11. SHARE CAPITAL**

i) *Authorized common shares*

Unlimited number of common shares with no par value

ii) *Issued and outstanding common shares*

	<b>Number of Common Shares</b>
	#
<b>Balance, January 1, 2010</b>	89,665,219
Shares issued for debentures	1,913,600
Shares issued for debentures	662,400
Shares issued for license option agreement	750,000
Shares issued for debenture	368,000
<b>Balance, December 31, 2010</b>	93,359,219
Shares issued for debentures	1,104,000
Shares issued for cash	5,800,000
<b>Balance, March 31, 2011</b>	100,263,219

On January 28, 2011, the Company completed a financing of secured debentures in the aggregate principal amount of \$300,000 (See Note 10). As part of the financing, the Company issued 1,104,000 common shares at a price of \$0.065 per share. The share price was estimated based on the closing trading price of a common share on the date of issuance.

On February 2, 2011, the Company 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 per share until February 2, 2013. The grant date fair value of the warrants less related issue costs was estimated at \$81,788 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.65%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 127.96%. Share issue costs related to this private placement were \$22,115.

**Escrowed shares**

On March 15, 2006, Cynapsus amalgamated with Lonsdale Public Ventures Inc., a capital pool company. Immediately following the amalgamation, 38,705,837 common shares of the Corporation were subject to escrow. 4,096,958 escrowed shares were released over a period of 36 months ending on March 31, 2009. 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 March 31, 2011, 6,921,782 of the 72-month release shares are still subject to escrow.

**CYNAPSUS THERAPEUTICS INC.**  
**Notes to the Condensed Unaudited Interim Financial Statements**  
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**11. SHARE CAPITAL (continued)**

*iii) Reserve - Warrants*

	<b>Number of Warrants</b>	<b>Estimated Grant Date Fair Value</b>	<b>Weighted Average</b>
	#	\$	Price / Share
<b>Balance, January 1, 2010</b>	13,338,350	294,444	0.153
Expired February 8, 2010	(1,175,000)	(58,261)	0.220
<b>Balance, December 31, 2010</b>	12,163,350	236,183	0.150
Issued February 2, 2011	5,800,000	81,788	0.100
Expired February 26, 2011	(1,935,000)	(54,809)	0.150
<b>Balance, March 31, 2011</b>	16,028,350	263,162	0.129

Warrants outstanding and exercisable as at March 31, 2011 are as follows:

<b>Number of Warrants</b>	<b>Number of Shares Issuable on Exercise of Warrants</b>	<b>Effective Strike Price</b>	<b>Estimated Grant Date Fair Value</b>	<b>Expiry Date</b>
#	#	\$/ Share	\$	
7,509,500	7,509,500	0.15	130,874	August 6, 2011
750,950	750,950	0.10	15,634	August 6, 2011
1,789,000	1,789,000	0.15	31,038	August 31 ,2011
178,900	178,900	0.10	3,828	August 31 ,2011
5,800,000	5,800,000	0.10	81,788	February 2, 2013
16,028,350	16,028,350		\$263,162	

The weighted average grant date fair value of the warrants issued during the period ended March 31, 2011 is \$0.01 (December 31, 2010: \$nil).

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

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## 11. SHARE CAPITAL (continued)

## iv) Reserve – Share based payments

The Company has in place a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is approved by the Board of Directors. All options expire 365 days after the resignation of an employee and expire 90 days after the resignation of a director or consultant.

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 and changes are as follows:

	Number of Options	Number of Shares Issuable on Exercise of Options	Weighted Exercise Price/Share
	#	#	\$
Options outstanding as at January 1, 2010	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
Granted	750,000	750,000	0.100
Expired	(50,000)	(150,000)	0.283
Options outstanding as at March 31, 2011	7,960,000	9,510,000	0.177

The weighted average grant date fair value of the stock options issued during the period ended March 31, 2011 is \$0.04 (December 31, 2010: \$0.04). The exercise price of stock options granted during the period 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 period ended March 31, 2011 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (December 31, 2010: 0%), expected volatility of 128% (December 31, 2010: 122% - 127%), risk free rates of return of 2.43% (December 31, 2010: 2.00% - 2.37%) and an expiry period of 5 years (December 31, 2010: 5 years). Expected volatility is estimated by considering historic average share volatility.

**CYNAPSUS THERAPEUTICS INC.**  
**Notes to the Condensed Unaudited Interim Financial Statements**  
**March 31, 2011**  
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**11. SHARE CAPITAL (continued)**

*iv) Reserve – Share based payments (continued)*

Stock options issued and outstanding as at March 31, 2011 are as follows:

Number of Options	Number of Shares		Expiry Date
	Issuable on Exercise of Options	Effective Strike Price (\$/share)	
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
750,000	750,000	0.100	March 4, 2016
<b>7,960,000</b>	<b>9,510,000</b>		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at March 31, 2011 is 6,526,667. The weighted average exercise price of these common shares as at March 31, 2011 is \$0.206.

The weighted average contractual life remaining for issuable shares on exercise of stock options at March 31, 2011 was 2.60 years and 1.93 years, respectively.

## Notes to the Condensed Unaudited Interim Financial Statements

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**12. RELATED PARTY DISCLOSURES**

Directors and key management are related parties to the Company. In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the Board of Directors (through the Corporate Governance and Compensation Committee) having regard to the performance of individuals and market trends.

Related party transactions during the three month period ended March 31, 2011 are included in operating, general and administrative expenses and are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	\$	\$
Management fees to CEO	36,000	34,000
Salaries to other key management	57,000	37,103
Director fees	29,950	19,300
Consulting services	-	21,000
	122,950	111,403

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).

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 (See Note 9). 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. See Note 10.

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 (See Note 14).

## Notes to the Condensed Unaudited Interim Financial Statements

March 31, 2011

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**13. NON-CASH TRANSACTIONS**

	Three Months Ended March 31,	
	2011	2010
	\$	\$
The following significant transactions did not generate or use cash:		
Value of shares issued for debenture bonus shares	71,760	-
Expiry of warrants	(54,809)	(58,261)
Share-based payments	25,090	50,595
Expiry of stock options	(7,500)	-

**14. CONTINGENT LIABILITIES**

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 accrued liabilities is \$20,000 related to this potential dispute. Management believes this dispute will be settled before June 30, 2011 (See Note 9).

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.

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**15. SUBSEQUENT EVENTS**

**(a) Proposed Adagio Acquisition 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.

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".

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, in its opinion, 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.

**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**15. SUBSEQUENT EVENTS (continued)****Proposed Adagio Acquisition and Related Party Transaction (continued)**

The completion of the Proposed Transaction is subject to a number of conditions, including the closing of private placement offering of at least \$4 million, disinterested shareholder approval, Exchange acceptance, and escrow arrangements. There can be no assurance that the Proposed Transaction will be completed as proposed or at all.

**(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 C\$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 private placement is subject to customary closing conditions and is expected to close on or around June 30, 2011.



**Notes to the Condensed Unaudited Interim Financial Statements****March 31, 2011****(in Canadian dollars)**

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**15. SUBSEQUENT EVENTS (continued)****(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) Board of Directors**

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.