CYNAPSUS THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A") OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board requires publicly accountable enterprises such as us to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's interim financial statements for the quarter ending June 30, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

For each reporting period in 2011, we will also present comparative information for 2010, both for interim and annual financial statements, as applicable, on an IFRS basis. Our financial statements for the year ending December 31, 2011 will be our first annual financial statements that comply with IFRS. As this will be our first year of reporting under IFRS, First time Adoption of IFRS (IFRS 1) is applicable.

In accordance with IFRS 1, we have applied IFRS retrospectively as of January 1, 2010 (the Transition Date) for comparative purposes. In preparing our opening balance sheet in accordance with IFRS, we have adjusted amounts reported previously in our financial statements prepared in accordance with pre-conversion Canadian GAAP (for detailed information see Changes in Accounting Policies).

For further information, please refer to the Company's Condensed Interim Financial Statements and Notes for the three and six months ended June 30, 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.

The discussion and analysis within this MD&A are as of August 22, 2011. 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 control only 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 six months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Operating, general and administrative	855,230	616,770	238,460	39

For the three months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Operating, general and administrative	509,870	316,215	193,655	61

The increase in OG&A expense in the three and six month period ended June 30, 2011 compared to June 30, 2010 is primarily attributed to expenses related to the proposed Adagio Pharmaceuticals Ltd. transaction, including legal fees, fees to obtain a fairness opinion from an independent US FINRA/SIPC registered financial advisor, and accrued board and committee fees. Other increases in the OG&A expense for the three and six month period ended June 30, 2011 compared to June 30, 2010 were related to increases 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 six months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Research and development	336,517	148,896	187,621	126

For the three months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Research and development	190,157	63,911	126,246	198

The increase in R&D expense for the three and six month period ended June 30, 2011 compared to June 30, 2010 is primarily due to increased spending on formulation development and animal testing of APL 130277, activities related to the Pre-IND meeting with the US Food and Drug Administration held on April 20, 2011, and work related to planning for human clinical studies that are scheduled to commence in the second half of 2011.

Loss Per Share

For the six months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Loss	1,414,745	865,610	549,135	63
Basic and diluted loss per share	0.01	0.01	0.00	-

For the three months ended June 30,

	2011	2010	$ change in 2011	% change in 2011
Loss	811,044	429,703	381,341	89
Basic and diluted loss per share	0.01	0.00	0.01	-

The increase in the loss per share for the three and six month period ended June 30, 2011 compared to June 30, 2010 is primarily attributed to expenses related to the proposed Adagio Pharmaceuticals Ltd. transaction, as well as increased spending on formulation development and animal testing of APL 130277, activities related to the Pre-IND meeting with the US Food and Drug Administration held in April, and work related to planning for human clinical studies that are scheduled to commence in the second half of 2011.

SUMMARY OF QUARTERLY RESULTS:

Quarterly Statements of Income:

For the six month period ended June 30, 2011 (in accordance with IFRS)

	Q1	Q2	2011 YTD Total
Revenues	-	-	-
Interest income	-	-	-
Operating, general and administrative	345,000	510,000	855,000
Research and development	147,000	190,000	337,000
Other	112,000	111,000	223,000
Net loss	604,000	811,000	1,415,000
Loss per share (basic and diluted)	0.01	0.01	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	301,000	316,000	268,000	237,000	1,122,000
Research and development	85,000	64,000	168,000	137,000	454,000
Other	50,000	50,000	(35,000)	(198,000)	(133,000)
Net loss	436,000	430,000	402,000	176,000	1,443,000
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
Other	66,000	(97,000)	(6,000)	20,000	(17,000)
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 June 30, 2011 was $185,992, 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 $1,036,580 at June 30, 2011, compared to $835,035 at December 31, 2010.

The balance of debentures payable was $1,448,877 at June 30, 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 six months ended June 30, 2011, operating activities used cash of $1,011,377 compared to $396,193 used in operations for the six months ended June 30, 2010. Cash used in operating activities reflects the net loss of $1,414,745 for the six months ended June 30, 2011, adjusted for non-cash items including amortization of equipment and intangible assets, share-based payments, accretion and interest expenses for debentures, and changes in non-cash working capital. The increase in cash outflow in the six months ended June 30, 2011 is primarily due to the increase in expenses related to the proposed Adagio transaction, expenses related to IFRS transition, and an increase in research and development spending.

For the three months ended June 30, 2011, operating activities used cash of $638,545 compared to $139,345 used in operations for the three months ended June 30, 2010. Cash used in operating activities reflects the net loss of $811,044 for the three months ended June 30, 2011, adjusted for non-cash items including amortization of equipment and intangible assets,

share-based payments, accretion and interest expenses for debentures, and changes in non-cash working capital. The increase in cash outflow in the six months ended June 30, 2011 is primarily due to the increase in expenses related to the proposed Adagio transaction, expenses related to IFRS transition, and an increase in research and development spending.

Financing Activities

For the three and six months ended June 30, 2011, net financing activities were $460,000 and $1,003,885 compared to $(35,977) and $(35,977) for the three and six months ended June 30, 2010. The Corporation raised net proceeds of $460,000 in the three months ended June 30, 2011 through a debenture financing in May.

Shareholders' equity decreased to $(2,046,189) at June 30, 2011 from $(1,114,792) at December 31, 2010, as the total proceeds from securities and debenture financings in January, February and May were insufficient to offset the net loss for the period ended June 30, 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 August 22, 2011			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common	102,103,219	-	-	9,490,166
Stock options	-	8,151,667	-	-
Common share purchase warrants	-	-	7,767,900	263,162
Total	102,103,219	8,151,667	7,767,900	9,753,328

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

	as at August 22, 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	-	9,285,000	-	9,285,000
Common share purchase warrants	-	-	7,767,900	7,767,900
Total	102,103,219	9,285,000	7,767,900	119,156,119

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 June 30, 2011, the comparative information presented in these financial statements for the period ended June 30, 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 has historically been 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.

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.

Debenture Financing and Share Issuance

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.

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.

Board of Directors and 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 became fully vested and expire on May 31, 2012.

Expiry of Stock Options

On March 23, 2011, stock options to acquire 150,000 common shares of the Corporation, previously granted to an Officer, expired unexercised.

On June 30, 2011, stock options to acquire 625,000 common shares of the Corporation, previously granted to an Officer and former employees, expired unexercised.

Related Party Transactions

At June 30, 2011, included in accounts payable and accrued liabilities is $420,787 (December 31, 2010 - $197,440) due to officers and directors of the Company. The increase in amounts owing to officers and directors for the six month period ended June 30, 2011, is primarily due to increased board and committee fees related to the proposed Adagio transaction, as well as a significant increase in consulting fees owed to the Chief Medical Officer. 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 June 30, 2011, $45,113 (December 31, 2010 - $40,305) of the interest-bearing debentures are due to related parties.

The value of share-based awards issued to related parties during the six month period ended June 30, 2011 is $26,000 (Six month period ended June 30, 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 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 December 31, 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) On July 19, 2011, the Corporation and Adagio Pharmaceuticals Ltd. ("Adagio") amended the License Option Agreement dated July 22, 2010 respecting the APL-130277 patent and related intellectual property. The amendment is to extend the expiration of the Option Period from July 22, 2011 to December 31, 2011. All the other terms of the License Option Agreement shall remain in full force and effect.

(b) On August 17, 2011, the Corporation announced that it intends to proceed with the acquisition of Adagio as previously announced on April 26, 2011 (the "Proposed Transaction") and conduct a Series E debenture financing.

The Proposed Transaction would supersede and replace the License Option Agreement dated July 22, 2010 entered into between Cynapsus and Adagio with respect to the intellectual property owned by Adagio concerning the APL-130277 patent rights and know-how.

The APL-130277 patent rights and know how are critical to the Corporation's long term objectives. The acquisition will ensure ownership of those rights by the Corporation and also align the interests of Adagio's senior management with those of the Corporation.

The acquisition was previously approved by the shareholders at the annual and special meeting held May 31, 2011. However, the approval was conditional upon completion of an equity financing in an amount of $4,000,000. The equity financing was not completed due in part to the recent market conditions. It is proposed that the Corporation complete the Financing in a lesser amount, as described below, which will allow the Corporation to conduct further human data studies and derisk the APL-130277 asset in anticipation of a more substantial equity financing.

<u>Terms of the Transaction</u>

The terms of the Proposed Transaction have not changed materially from those approved by the shareholders. The requirement for an equity financing has been removed and offset by an amendment to the escrow release conditions. The initial consideration shares (26,000,000) to be delivered upon closing of the Adagio purchase will be held in escrow and released once additional capital raising thresholds totalling $8,000,000 have been achieved.

The Proposed Transaction will be structured as a share exchange with Adagio shareholders receiving 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:

A. 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;

B. 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; and

C. a payment of $2,500,000 conditional upon the successful completion of the APL-130277 final safety 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.

With respect to the payments described in B and C above, the VWAP of the Common Shares of Cynapsus may not be less than the "discounted market price" as defined in the policies of the TSX Venture Exchange Inc. (the "Exchange").

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. As previously announced, steps were 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 an independent US FINRA/SIPC registered financial advisor.

The Corporation received a fairness opinion that, based on the assumptions and limitations set out in the 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 has concluded that the Proposed Transaction is in the best interests of Cynapsus.

Under the Related Party Requirements, the Proposed Transaction was approved at the annual and special meeting of shareholders held May 31, 2011. The parties have agreed to amend the Proposed Transaction to eliminate the $4,000,000 equity financing requirement and to change the initial escrow release conditions. The Proposed

Transaction will require an initial capital raise in amount of no less than $250,000. For these purposes a "capital raise" includes proceeds received by the Corporation arising from the issuance of debt or equity securities or third party licensing or research fees.
The initial escrow release conditions apply to the 26,000,000 Common Shares that are to be issued on closing to the Adagio shareholders. These conditions defer release of the initial consideration shares until specified capital raising thresholds totalling $8,000,000 have been achieved. A special meeting of shareholders will be called for late October or early November 2011 in Toronto, Canada at which the Proposed Transaction, as amended, will be submitted for approval by shareholders.

Closing Conditions

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

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

(b) Completion by the Corporation of a Financing (as described below).

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

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

Completion of the Proposed Transaction is subject to a number of conditions, including Exchange approval 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 completion of a capital raise in an amount of no less than $250,000 (a "Financing"). The initial share consideration consisting of 26,000,000 Common Shares will be released as follows:

(a) 3,250,000 Common Shares are to be released upon completion of a capital raise in the amount of $250,000 to $1,000,000.

(b) a further 3,250,000 Common Shares are to be released upon completion of capital raises, including the amount required for closing, in the aggregate amount of $2,000,000 have been achieved.

(c) a further 3,250,000 Common Shares are to be released upon completion of subsequent capital raises in the aggregate amount of $1,000,000 or multiples thereof, in excess of $2,000,000, until capital raises totalling $8,000,000 have been achieved.

All Common Shares issued to Mr. Giovinazzo will be subject to a separate and distinct contractual escrow. The escrow arrangement with Mr. Giovinazzo will provide, among other things, for the following escrow releases:
(a) 25% immediately; and

(b) 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 initial escrow release 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.

Current Series E Debenture Financing

Cynapsus intends to complete a Series E Debenture financing of up to $2,000,000 on or before September 30, 2011, to fund ongoing research and development activities of the Corporation's APL 130277 product, repayment of the $100,000 Series B Debenture, working capital and general corporate purposes. Research and development activities will include the completion of a single dose human proof of concept ("SDHPOC") study within approximately 90-120 days from the close of the Series E Debenture financing. Terms of the Series E Debenture will be publicly disclosed when finalized. For greater clarity, the Series E Debenture financing will be included for purposes of the Financing described above.

The successful completion of the SDHPOC study is expected to trigger a larger financing to complete a Phase 1 bioequivalence study and a safety study. These studies are expected to be funded by the completion of a private placement equity financing of up to $8,000,000 in Q1 2012. 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.

Closing

The Proposed Transaction cannot close until the required Exchange and shareholder approval is obtained. There can be no assurance that the Proposed Transaction will be completed as proposed or at all.

Investors are cautioned that, except as disclosed in the Information Circular to be prepared in connection with shareholder approval of the Proposed Transaction, any information released or received with respect to the Proposed Transaction may not be accurate or complete and should not be relied upon. Trading in the securities of Cynapsus should be considered highly speculative.

It is currently anticipated that the Series E Debenture Financing will be completed between August 26, 2011 and September 30, 2011.

It is currently anticipated that the Proposed Transaction will be completed on or around November 15, 2011.

(c) On August 19, 2011 the Corporation granted stock options to acquire 400,000 common shares. The stock options were granted to Andrew Williams (COO/CFO) at an exercise price of $0.10 per share for a term of 5 years from date of grant. These stock options were issued to replace previously granted stock options that expired after 5 years.

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 $1,411,745 for the six months ended June 30, 2011 and expects to incur losses from continuing operations for the near future. As at June 30, 2011, the Corporation had cash and cash equivalents of $185,992. The Corporation does not expect these funds will be sufficient to fund current product development and operating costs beyond the next four months. The Corporation is currently seeking to raise additional capital through the issuance of further debentures and/or 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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