

CYNAPSUS THERAPEUTICS INC.

Condensed Interim Financial Statements For the Six Months Ended June 30, 2011 (Expressed in Canadian Dollars)

Unaudited

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM 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 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 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

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As at June 30, 2011, December 31, 2010 and January 1, 2010
(in Canadian dollars)

	NOTES	June 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
ASSETS				
Current assets				
Cash and cash equivalents		185,992	193,484	483,197
Prepaid expenses and other current assets		110,889	46,262	113,903
		296,881	239,746	597,100
Non-current assets				
Equipment	7	9,053	10,434	14,249
Intangible assets	8	133,334	138,889	150,000
		439,268	389,069	761,349
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9, 12	1,036,580	835,035	765,491
Debentures payable	10	1,448,877	668,826	-
		2,485,457	1,503,861	765,491
SHAREHOLDERS' DEFICIENCY				
Share capital	11	9,490,166	9,140,310	8,961,130
Equity reserves				
Warrants	11	263,162	236,183	294,444
Share-based payments	11	862,423	849,469	826,472
(Deficit)		(12,661,940)	(11,340,754)	(10,086,188)
		(2,046,189)	(1,114,792)	(4,142)
		439,268	389,069	761,349

COMMITMENTS AND CONTINGENCIES (Notes 4, 10 and 14)

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

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For the three and six month periods ended March 31, 2011 and 2010
(in Canadian dollars)

	NOTES	Three months		Six months	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		\$	\$	\$	\$
EXPENSES					
Operating, general and administrative		509,870	316,215	855,230	616,770
Research and development		190,157	63,911	336,517	148,896
Share-based payments	11	26,614	46,249	51,704	96,844
Amortization of intangible assets	8	2,778	2,778	5,555	5,555
Depreciation of equipment	7	690	954	1,381	1,908
Foreign exchange loss		8,960	3,989	4,429	521
(Recovery) on scientific research		(55,000)	(5,073)	(55,000)	(5,073)
Operating (loss) for the period		(684,069)	(429,023)	(1,199,636)	(865,421)
Interest income		-	25	-	1,015
Finance costs	10	(119,753)	-	(207,811)	-
Other interest and related charges		(7,222)	(705)	(7,298)	(1,204)
(Loss) and (comprehensive loss) for the period		(811,044)	(429,703)	(1,414,745)	(865,610)
Basic and diluted loss per share		0.01	0.00	0.01	0.01
Weighted average number of shares outstanding		100,991,131	89,665,219	99,400,943	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, June 30, 2010, December 31, 2010 and June 30, 2011

(in Canadian dollars)

	Share Capital	Equity Reserves - Warrants	Equity Reserves - Share- Based Payments	Deficit	Total
	\$	\$	\$	\$	\$
Balance as at January 1, 2010	8,961,130	294,444	826,472	(10,086,188)	(4,142)
Expiry of warrants	-	(58,261)	-	58,261	-
Expiry of share-based payments	-	-	(67,833)	67,833	-
Share-based payments	-	-	96,844	-	96,844
Comprehensive loss for the period	-	-	-	(865,610)	(865,610)
Activity from January 1 to June 30, 2010	-	(58,261)	29,011	(739,516)	(768,766)
Balance as at June 30, 2010	8,961,130	236,183	855,483	(10,825,704)	(772,908)
Debt issuance, value of shares	141,680	-	-	-	141,680
License option agreement, value of shares	37,500	-	-	-	37,500
Expiry of stock options	-	-	(62,251)	62,251	-
Share-based payments	-	-	56,237	-	56,237
Comprehensive loss for the period	-	-	-	(577,301)	(577,301)
Activity from July 1 to December 31, 2010	179,180	-	(6,014)	(515,050)	(341,884)
Balance as at December 31, 2010	9,140,310	236,183	849,469	(11,340,754)	(1,114,792)
Private placements, value of shares	186,097	-	-	-	186,097
Private placements, value of warrants	-	81,788	-	-	81,788
Debt issuance, value of shares	163,759	-	-	-	163,759
Expiry of warrants	-	(54,809)	-	54,809	-
Expiry of share-based payments	-	-	(38,750)	38,750	-
Share-based payments	-	-	51,704	-	51,704
Comprehensive loss for the period	-	-	-	(1,414,745)	(1,414,745)
Activity from January 1 to June 30, 2011	349,856	26,979	12,954	(1,321,186)	(931,397)
Balance as at June 30, 2011	9,490,166	263,162	862,423	(12,661,940)	(2,046,189)

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

CYNAPSUS THERAPEUTICS INC.
Condensed Unaudited Interim Statements of Cash Flows

For the three and six month periods ended June 30, 2011 and 2010
(in Canadian dollars)

	NOTE	Three months		Six months	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		\$	\$	\$	\$
Cash provided by (used in)					
Operating activities					
Loss for the period		(811,044)	(429,703)	(1,414,745)	(865,610)
Items not affecting cash:					
Share-based payments	11	26,614	46,249	51,704	96,844
Amortization of intangible assets	8	2,778	2,778	5,555	5,555
Depreciation of equipment	7	690	954	1,381	1,908
Debenture accretion expense	10	93,759	-	161,237	-
Accrual of debenture interest expense	10	25,994	-	46,574	-
		(661,209)	(379,722)	(1,148,294)	(761,303)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		(58,030)	10,230	(64,627)	42,296
Change in accounts payables and accrued liabilities		80,694	230,147	201,544	322,814
Net cash generated (used in) operating activities		(638,545)	(139,345)	(1,011,377)	(396,193)
Financing activities					
Gross proceeds from issuance of shares and warrants	11	-	-	290,000	-
Issuance costs of shares and warrants	11	-	-	(22,115)	-
Proceeds from issuance of debentures	10	460,000	-	736,000	-
Deferred financing costs		-	(35,977)	-	(35,977)
Net cash generated from financing activities		460,000	(35,977)	1,003,885	(35,977)
(Decrease) in cash and cash equivalents		(178,545)	(175,322)	(7,492)	(432,170)
Cash and cash equivalents, beginning of period		364,537	226,349	193,484	483,197
Cash and cash equivalents, end of period		185,992	51,027	185,992	51,207
Cash and cash equivalents consist of:					
Cash		185,992	51,027	185,992	51,027
Cash equivalents		-	-	-	-
		185,992	51,027	185,992	51,027

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**June 30, 2011****(in Canadian dollars)**

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.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These are the Company's first IFRS condensed interim financial statements for the second 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 August 22, 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**June 30, 2011****(in Canadian dollars)**

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**June 30, 2011****(in Canadian dollars)**

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**June 30, 2011****(in Canadian dollars)**

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**June 30, 2011****(in Canadian dollars)**

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**June 30, 2011****(in Canadian dollars)**

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 June 30, 2011 and 2010.

Accounting standards issued but not yet applied

IFRS 7 *Financial instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9 *Financial Instruments* ("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. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 13 *Fair Value Measurement* converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

Notes to the Condensed Unaudited Interim Financial Statements**June 30, 2011**(in Canadian dollars)

5. TRANSITION TO IFRS

As stated in Note 2, these are the Company's second 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 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" (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 June 30, 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	June 30, 2010	December 31, 2010
Reserve – Share-based payments	826,472	855,483	849,469
Contributed surplus	(1,275,985)	(1,369,584)	(1,425,937)
(Deficit)	449,513	514,101	576,468

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	June 30, 2010	December 31, 2010
Contributed surplus	(565,611)	(623,872)	(623,872)
(Deficit)	565,611	623,872	623,872

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 June 30, 2010.
- Reconciliation of statement of operations and comprehensive loss for the six months ended June 30, 2010.
- Reconciliation of statement of financial position as of June 30, 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

June 30, 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
ASSETS				
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
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	765,491	-	-	765,491
Debentures payable	-	-	-	-
	765,491	-	-	765,491
SHAREHOLDERS' EQUITY				
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

June 30, 2011

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of statement of operations and comprehensive loss for the three months ended June 30, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
REVENUES	25	-	(25)	-
EXPENSES				
Operating, general and administrative	320,909	-	(4,694)	316,215
Research and development	63,911	-	-	63,911
Share-based payments	43,119	3,130	-	46,249
Amortization of intangible assets	2,778	-	-	2,778
Depreciation of equipment	954	-	-	954
Foreign exchange (gain)	-	-	3,989	3,989
Recovery on scientific research	(5,073)	-	-	(5,073)
Expenses	426,598	3,130	(705)	429,023
Operating profit (loss) for the period	(426,573)	(3,130)	680	(429,023)
Interest income	-	-	25	25
Finance costs	-	-	-	-
Other interest and related charges	-	-	(705)	(705)
Comprehensive (loss) for the period	(426,573)	(3,130)	-	(429,703)

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of statement of operations and comprehensive loss for the six months ended June 30, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
REVENUES	1,015	-	(1,015)	-
EXPENSES				
Operating, general and administrative	618,495	-	(1,725)	616,770
Research and development	148,896			148,896
Share-based payments	93,598	3,246	-	96,844
Amortization of intangible assets	5,555			5,555
Depreciation of equipment	1,908			1,908
Foreign exchange (gain)	-		521	521
Recovery on scientific research	(5,073)			(5,073)
Expenses	863,379	3,246	(1,204)	865,421
Operating profit (loss) for the period	(862,364)	(3,246)	189	(865,421)
Interest income	-	-	1,015	1,015
Finance costs	-	-	-	-
Other interest and related charges	-	-	(1,204)	(1,204)
Comprehensive (loss) for the period	(862,364)	(3,246)	-	(865,610)

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of statement of financial position as of June 30, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
ASSETS				
Current assets				
Cash and cash equivalents	51,027	-	-	51,027
Prepaid expenses and other current assets	71,608	-	-	71,608
	122,635	-	-	122,635
Non-current assets				
Equipment	12,342	-	-	12,342
Intangible assets	144,445	-	-	144,445
Deferred financing costs	35,977	-	-	35,977
	315,399	-	-	315,399
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	1,088,306	-	-	1,088,306
Debentures payable	-	-	-	-
	1,088,306	-	-	1,088,306
SHAREHOLDERS' EQUITY				
Share capital	8,961,130	-	-	8,961,130
Equity reserves				
Warrants	236,183	-	-	236,183
Share-based payments	-	96,844	758,639	855,483
Contributed Surplus	1,993,456	(93,598)	(1,899,858)	-
(Deficit)	(11,963,676)	(3,246)	1,141,219	(10,825,703)
	(772,907)	-	-	(772,907)
	315,399	-	-	315,399

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 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
REVENUES	1,015		(1,015)	-
EXPENSES				
Operating, general and administrative	1,188,360	-	(66,594)	1,121,766
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)
Expenses	1,440,797	3,129	(76,250)	1,367,676
Operating profit (loss) for the period	(1,439,782)	(3,129)	75,235	(1,367,676)
Interest income	-	-	1,015	1,015
Finance costs	-	-	(74,506)	(74,506)
Other interest and related charges	-	-	(1,744)	(1,744)
Comprehensive (loss) for the period	(1,439,782)	(3,129)	-	(1,442,911)

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 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
ASSETS				
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
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	835,035	-	-	835,035
Debentures payable	668,826	-	-	668,826
	1,503,861	-	-	1,503,861
SHAREHOLDERS' EQUITY				
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**June 30, 2011****(in Canadian dollars)**

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 June 30, 2011, the Company had cash and cash equivalents of \$185,992 and prepaid expenses and other current assets of \$110,889 (December 31, 2010 - \$193,484 and \$46,262) to settle current liabilities of \$2,485,457 (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 \$2,000.

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

The Company has cash and cash equivalent balances and debentures payable as at June 30, 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 June 30, 2011, the Company has \$1,600,000 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 \$1,500,000 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**June 30, 2011****(in Canadian dollars)**

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.

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.

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

7. EQUIPMENT

The following is a summary of equipment as at June 30, 2011 and December 31, 2010:

	Computer Equipment	Furniture and Equipment	Total
	\$	\$	\$
Cost			
Cost at January 1, 2010, December 31, 2010 and March 31, 2011	15,270	9,318	24,588
Accumulated depreciation			
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	1,013	368	1,381
Accumulated depreciation at June 30, 2011	9,523	6,012	15,535
Net book value			
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 June 30, 2011	5,747	3,306	9,053

Notes to the Condensed Unaudited Interim Financial Statements June 30, 2011

(in Canadian dollars)

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.

	License Agreement
	\$
Cost	
Cost at January 1, 2010, December 31, 2010, and June 30, 2011	200,000
Accumulated amortization	
Balance at January 1, 2010	50,000
Amortization	11,111
Balance at December 31, 2010	61,111
Amortization	5,555
Balance at June 30, 2011	66,666
Net book value	
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 June 30, 2011	133,334

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of accounts payable and accrued liabilities as at June 30, 2011, December 31, 2010 and January 1, 2010:

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables	578,791	595,075	505,648
Due to related parties (Note 12)	420,787	197,440	98,560
Accrued liabilities	18,000	22,520	81,283
Provision for disputes (Note 14)	20,000	20,000	80,000
	1,036,578	835,035	765,491

Notes to the Condensed Unaudited Interim Financial Statements June 30, 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	2nd
Series B	100,000	92,000	November 24, 2010	July 29, 2011	1st	2nd
Series C	300,000	276,000	January 28, 2011	December 30, 2011	2nd	1st
Series D	500,000	460,000	May 25, 2011	December 30, 2011	2nd	1st
	1,600,000	1,472,000				

The changes in debentures payable from January 1, 2010 to June 30, 2011 are as follows:

	Debentures
	\$
Balance as at January 1, 2010, December 31, 2010 and June 30, 2011	-
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
Balance as at December 31, 2010 (Face Value \$800,000)	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
Balance as at March 31, 2011 (Face Value \$1,100,000)	961,124

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

10. DEBENTURES PAYABLE (continued)

The changes in debentures payable from January 1, 2010 to June 30, 2011 are as follows (continued):

Balance as at March 31, 2011 (Face Value \$1,100,000)	961,124
Debenture, May 25, 2011	
Face value	500,000
8 % Capital discount	(40,000)
	460,000
Value of 1,840,000 shares issued as debenture bonus shares (\$0.05/share)	(92,000)
	368,000
Debenture accretion expense during the three month period	93,759
Accrual of debenture interest expense during the three month period	25,994
Balance as at June 30, 2011 (Face Value \$1,600,000)	1,448,877

The following is a summary of finance costs as at June 30, 2011 and June 30, 2010:

	Three Month Period Ended	
	June 30, 2011	June 30, 2010
	\$	\$
Debenture accretion	161,237	-
Debenture interest	46,574	-
Finance costs	207,811	-

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

11. SHARE CAPITAL*i) Authorized common shares*

Unlimited number of common shares with no par value

ii) Issued and outstanding common shares

	Number of Common Shares
	#
Balance, January 1, 2010	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
Balance, December 31, 2010	93,359,219
Shares issued for debentures	1,104,000
Shares issued for cash	5,800,000
Shares issued for debentures	1,840,000
Balance, June 30, 2011	102,103,219

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.

On May 25, 2011, the Company completed a financing of secured debentures in the aggregate principal amount of \$500,000 (See Note 10). As part of the financing, the Company issued 1,840,000 common shares at a price of \$0.05 per share. The share price was estimated based on the closing trading price of a common share on the date of issuance.

Notes to the Condensed Unaudited Interim Financial Statements

June 30, 2011

(in Canadian dollars)

11. SHARE CAPITAL (continued)

ii) Issued and outstanding common shares (continued)

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 June 30, 2011, 6,921,782 of the 72-month release shares are still subject to escrow.

iii) Reserve - Warrants

	Number of Warrants	Estimated Grant Date Fair Value	Weighted Average
	#	\$	Price / Share
Balance, January 1, 2010	13,338,350	294,444	0.153
Expired February 8, 2010	(1,175,000)	(58,261)	0.220
Balance, December 31, 2010	12,163,350	236,183	0.150
Issued February 2, 2011	5,800,000	81,788	0.100
Expired February 26, 2011	(1,935,000)	(54,809)	0.150
Balance, June 30, 2011	16,028,350	263,162	0.129

Warrants outstanding and exercisable as at June 30, 2011 are as follows:

Number of Warrants	Number of Shares Issuable on Exercise of Warrants	Effective Strike Price	Estimated Grant Date Fair Value	Expiry Date
#	#	\$/ 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 June 30, 2011 is \$0.01 (December 31, 2010: \$nil).

Notes to the Condensed Unaudited Interim Financial Statements

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(in Canadian dollars)

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	(258,333)	(775,000)	0.283
Options outstanding as at June 30, 2011	7,751,667	8,885,000	0.170

The weighted average grant date fair value of the stock options issued during the period ended June 30, 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 June 30, 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
June 30, 2011
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11. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

Stock options issued and outstanding as at June 30, 2011 are as follows:

Number of Options	Number of Shares		Effective Strike Price (\$/share)	Expiry Date
	Options	Issuable on Exercise of Options		
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
7,751,667	8,885,000			

The total number of common shares that are issuable pursuant to stock options that are exercisable as at June 30, 2011 is 5,901,667. The weighted average exercise price of these common shares as at June 30, 2011 is \$0.197.

The weighted average contractual life remaining for issuable shares on exercise of stock options at June 30, 2011 was 2.76 years and 2.11 years, respectively.

Notes to the Condensed Unaudited Interim Financial Statements June 30, 2011

(in Canadian dollars)

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 June 30, 2011 are included in operating, general and administrative expenses and research and development expenses as follows:

	Three Months Ended June30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Management fees to CEO (OG&A)	36,000	36,000	72,000	70,000
Salaries to other key management (OG&A)	76,142	59,780	133,142	113,895
Director fees (OG&A)	43,012	10,450	72,962	29,750
Consulting services (OG&A)	-	7,000	-	28,000
Consulting services (R&D)	119,730	-	119,730	-
	274,884	113,230	397,834	241,645

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 (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 June 30, 2011, \$45,113 (December 31, 2010 - \$40,305) of the interest-bearing debentures are due to related parties. See Note 10.

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 (See Note 14).

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13. NON-CASH TRANSACTIONS

	Six Months Ended June 30,	
	2011	2010
	\$	\$
The following significant transactions did not generate or use cash:		
Value of shares issued for debenture bonus shares	163,759	-
Expiry of warrants	(54,809)	(58,261)
Share-based payments	51,704	96,844
Expiry of share-based payments	(38,750)	(67,833)

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 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 December 31, 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.

Notes to the Condensed Unaudited Interim Financial Statements**June 30, 2011****(in Canadian dollars)**

15. 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.

Terms of the Transaction

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”).

CYNAPSUS THERAPEUTICS INC.
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15. SUBSEQUENT EVENTS (continued)

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.

Notes to the Condensed Unaudited Interim Financial Statements**June 30, 2011****(in Canadian dollars)**

15. SUBSEQUENT EVENTS (continued)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.

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15. SUBSEQUENT EVENTS (continued)

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 an officer of the Corporation 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.