CYNAPSUS THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A") OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 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 nine months ended September 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 Company, 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 November 9, 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 one 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 nine months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Operating, general and administrative	1,067,365	884,928	182,437	21

For the three months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Operating, general and administrative	212,135	268,158	(56,023)	(21)

The increase in OG&A expense in the nine month period ended September 30, 2011 compared to September 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 nine month period ended September 30, 2011 compared to September 30, 2010 were related to increases in accounting fees related to IFRS transition, and the engagement of a US-based public relations firm.

The decrease in OG&A expense in the three month period ended September 30, 2011 compared to September 30, 2010 is primarily attributed to higher legal and professional fees associated with capital raising efforts in Q3 2010 compared to Q3 2011.

Research and Development ("R&D") Expense

For the nine months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Research and development	388,299	317,047	71,252	22

For the three months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Research and development	51,782	168,151	(116,246)	(69)

The increase in R&D expense for the nine month period ended September 30, 2011 compared to September 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 fourth quarter of 2011.

The decrease in R&D expense for the three month period ended September 30, 2011 compared to September 30, 2010 is primarily due to decreased spending on patent fees, formulation development and animal testing associated with APL 130277.

Loss Per Share

For the nine months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Loss	1,891,435	1,267,403	624,032	49
Basic and diluted loss per share	0.02	0.01	0.01	100

For the three months ended September 30,

	2011	2010	$ change in 2011	% change in 2011
Loss	476,690	401,793	74,897	19
Basic and diluted loss per share	0.00	0.00	0.00	-

The increase in the loss per share for the nine month period ended September 30, 2011 compared to September 30, 2010 is primarily attributed to expenses related to the proposed Adagio Pharmaceuticals Ltd. transaction, accounting costs associated with the IFRS transition, 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 fourth quarter of 2011.

The increase in the loss per share for the three month period ended September 30, 2011 compared to September 30, 2010 is primarily attributed to due to decreased spending on patent fees, formulation development and animal testing associated with APL 130277.

SUMMARY OF QUARTERLY RESULTS:

Quarterly Statements of Income:

For the nine month period ended September 30, 2011 (in accordance with IFRS)

	Q1	Q2	Q3	2011 YTD Total
Revenues	-	-	-	-
Interest income	-	-	-	-
Operating, general and administrative	345,000	510,000	212,000	1,067,000
Research and development	147,000	190,000	51,000	388,000
Other	112,000	111,000	213,000	436,000
Net loss	604,000	811,000	476,000	1,891,000
Loss per share (basic and diluted)	0.01	0.01	0.00	0.02

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 September 30, 2011 was $453,769, 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 Company 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 $1,100,063 at September 30, 2011, compared to $835,035 at December 31, 2010.

The balance of debentures payable was $2,001,525 at September 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 foreseeable 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 nine months ended September 30, 2011, operating activities used cash of $1,168,600 compared to $779,477 used in operations for the nine months ended September 30, 2010. Cash used in operating activities reflects the net loss of $1,891,435 for the nine months ended September 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 nine months ended September 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 September 30, 2011, operating activities used cash of $157,223 compared to $383,284 used in operations for the three months ended September 30, 2010. Cash used in operating activities reflects the net loss of $476,690 for the three months ended

September 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 decrease in cash outflow in the three months ended September 30, 2011 is primarily due to the decrease in research and development spending in Q3 2011.

Financing Activities

For the three and nine months ended September 30, 2011, net financing activities were $425,000 and $1,428,885 compared to $679,997 and $644,000 for the three and nine months ended September 30, 2010. The Company raised net proceeds of $425,000 in the three months ended September 30, 2011 through a debenture financing in September.

Shareholders' equity decreased to $(2,444,566) at September 30, 2011 from $(1,114,792) at December 31, 2010, as the net proceeds from the private placement financing in February, the value of the debenture bonus shares issued in January and May and September, and the share-based payments issued in the period, were insufficient to offset the net loss for the period ended September 30, 2011.

Share Capital

The Company 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 November 9, 2011			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common shares	104,403,219	-	-	9,571,166
Stock options	-	7,785,000	-	-
Common share purchase warrants	-	-	5,800,000	81,788
Total	104,403,219	7,785,000	5,800,000	9,652,954

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

	as at November 9, 2011			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common shares	104,403,219	-	-	104,403,219
Stock options	-	8,185,000	-	8,185,000
Common share purchase warrants	-	-	5,800,000	5,800,000
Total	104,403,219	8,185,000	5,800,000	118,388,219

Off-Balance Sheet Arrangements

The Company 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 September 30, 2011, the comparative information presented in these financial statements for the period ended September 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 Company'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 Company, 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 Company at a price of $0.10 per share for a period ending on February 2, 2013.

Debenture Financings and Share Issuances

On January 28, 2011, the Company 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 Company paid an 8% capital discount to the debenture holders resulting in net proceeds to the Company of $276,000 and issued 1,104,000 common shares to the debenture holders at a price of $0.05 per share.

On May 25, 2011, the Company 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 Company paid an 8% capital discount to the debenture holder resulting in net proceeds to the Company of $460,000 and issued 1,840,000 common shares to the debenture holders at a price of $0.05 per share.

On September 29, 2011, the Company completed a first closing of financing of Series E secured debentures in the aggregate amount of $488,503. The Secured Debentures bear interest at a rate of 10% per annum and are secured by a security interest in the assets of the Company. The Secured Debentures are payable by Cynapsus on March 30, 2012. As part of the Financing, the Company paid a 13% capital discount to the debenture holder resulting in net proceeds to the Company of $425,000 and issued 1,700,000 bonus common shares to the debenture holders at a price of $0.05 per share. David Hill, a director of the Company, has subscribed in the principal amount of $28,735. The Series E debentures will have an equal ranking security interest with the Series D debentures and will have a prior ranking security interest ahead of the Series A and Series C debentures in the assets of the Company pursuant to a priorities agreement between the holders of the said debentures. The Series B debenture will be repaid from use of proceeds. As part of the priority agreements, the maturity dates of all debentures (Series A, C, D) will be extended to March 31, 2012 (from December 30, 2011), and the capital discount and interest rate will be modified to match the Series E debentures (i.e. 13% and 10%, respectively).

Expiry of Warrants

On February 26, 2011, warrants to acquire 1,935,000 common shares of the Company expired unexercised.

On August 6, 2011, warrants to acquire 8,260,450 common shares of the Company expired unexercised.

On August 31, 2011, warrants to acquire 1,967,900 common shares of the Company expired unexercised.

Expiry of Stock Options

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

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

On August 31, 2011, stock options to acquire 350,000 common shares of the Company, previously granted to an Officer and former employees, expired unexercised.

Grant of Stock Options

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

On August 19, 2011 the Company 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.

Subsequent Events

On November 1, 2011, 250,000 stock options exercisable into 750,000 common shares at exercise prices of $0.0283 per share expired unexercised.

On November 8, 2011, the Company announced that it has arranged a second closing financing (the "Financing") of secured Series E Debentures ("Secured Debentures") in the aggregate principal amount of $172,414. The first closing of the Series E debentures occurred on September 29, 2011, in the aggregate principal amount of $488,503. The Secured Debentures bear interest at a rate of 10% per annum and are secured by a security interest in the assets of the Company. The Secured Debentures are payable by Cynapsus on or before March 31, 2012. As part of the Financing, the Company will pay a 13% capital discount to the debenture holders resulting in net proceeds to the Company of $150,000 and issue 600,000 bonus common shares to the debenture holders at a price of $0.05 per share.

Related Party Transactions

At September 30, 2011, included in accounts payable and accrued liabilities is $438,655 (December 31, 2010 - $197,440) due to officers and directors of the Company. The increase in amounts owing to officers and directors for the nine month period ended September 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 September 30, 2011, $70,258 (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 nine month period ended September 30, 2011 is $34,000 (Nine month period ended September 30, 2010 - $57,750).

During the year ended December 31, 2010, the Company awarded bonuses of $179,052 to certain officers and employees of the Company, with payment being contingent upon the Company 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 the financial statements.

Commitments and Contingencies

The Company 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 Company is subject to additional termination and stock option commitments, contingent upon the Company raising a cumulative amount of $5 million after November 16, 2009. Once raised, the Company 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 Company 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 Company awarded bonuses of $179,052 to certain officers and employees of the Company, with payment being contingent upon the Company 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 Company 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 Company has retained Summer Street Research Partners ("Summer Street") to serve as its exclusive financial advisor. In addition to reasonable out-of-pocket expenses, the Company has agreed to pay Summer Street compensation for its services under an agreement. If a financing is consummated, the Company 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 Company 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 Company 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.

Proposed Transaction

On August 17, 2011, the Company 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 July 22, 2010 License Option Agreement was amended on July 19, 2011 to extend the expiration of the option period from July 22, 2011 to December 31, 2011. The APL-130277 patent rights and know how are critical to the Company's long term objectives. The acquisition will ensure ownership of those rights by the Company and also align the interests of Adagio's senior management with those of the Company.

The acquisition of Adagio was previously approved by the shareholders at the annual and special meeting held May 31, 2011. The terms of the Proposed Transaction have not changed materially from those approved by shareholders. However, the approval was conditional upon completion of an equity financing in an amount of $4 million. The equity financing was not completed due in part to the recent market conditions. It is proposed that the Company complete the financing in a lesser amount with an offset by an amendment to the escrow release conditions, as described below, which will allow the Company to conduct further human data studies and derisk the APL-130277 asset in anticipation of a more substantial equity financing.

A special meeting of shareholders has been called for November 30, 2011 in Toronto, Canada at which the Proposed Transaction, as amended, will be submitted for approval by shareholders. Shareholders will be asked at the meeting to pass a resolution authorizing the Company to acquire Adagio, subject to certain conditions precedent.

Related Party Transaction

The Proposed Transaction constitutes a "related party transaction" pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101") and the policies of the Exchange because Anthony Giovinazzo, President and Chief Executive Officer of the Company, is also a director, officer and majority shareholder of Adagio.

Pursuant to MI 61-101, if a transaction is a related party transaction, a formal valuation and minority shareholder approval of the transaction are required, unless exemptions from such requirements are available. By virtue of its listing on the Exchange, the Company is exempt from the formal valuation requirements.

In furtherance of satisfying the Board of Director's fiduciary duties, the Special Committee of the Board of Directors retained Torreya Capital ("Torreya"), a division of Financial West Capital Group, Inc., an independent US FINRA/SIPC registered financial advisor, to provide a fairness opinion. The Company also intends to obtain minority shareholder approval.

Terms of the Proposed Transaction

The Proposed Transaction will be structured as a share exchange with Adagio shareholders to receive newly issued Common Shares in the capital of Cynapsus 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 (the "Initial Payment");

B. a payment of $1,500,000 conditional upon the successful completion of the APL-130277 phase 1 bioequivalence 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 Exchange.

Closing Conditions

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

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

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

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

"Capital Raise" means the receipt by the Company of proceeds arising from the issuance of debt or equity securities, third party licensing or research fees. Upon closing of the Proposed Transaction, 3,250,000 Common Shares will be delivered to the Adagio shareholders in respect of the Initial Payment, and the balance of the Common Shares of Cynapsus to be delivered on closing in respect of the Initial Payment will be subject to escrow as follows:

(a) 3,250,000 Common Shares will be released upon the completion of Capital Raise(s) in the aggregate amount of $1,511,497 excluding the proceeds raised pursuant to a debenture financing completed as of September 29, 2011 being $488,503: and

(b) an additional 3,250,000 Common Shares shall be released upon the completion of each subsequent Capital Raise in the aggregate amount of $1,000,000 or multiples thereof in excess of the amounts raised under the previous Capital Raise(s), until the aggregate amount of all Capital Raises equals $8,000,000.

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

Escrow Arrangements

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

(a) 25% of the Common Shares that are subject to the third party escrow agreement will be immediately free of any escrow restrictions; and

(b) of the remaining 75% of the Common Shares that are subject to the third party escrow agreement, a third of such shares shall be released from escrow on the first, second and third anniversaries of the closing of the Proposed Transaction, as amended.

Any Common Shares issued to Mr. Giovinazzo that were subject to the Capital Raise escrow described above will be released from the contractual escrow on the same basis as if such shares had been delivered at closing.

In the event of a sale of the Company, including but not limited to a sale of substantially all of the assets of the Company, 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.

Capital Raise

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

The Company intends to use the proceeds from the Capital Raise(s) to fund ongoing research and development activities relating to the APL-132077 project, for working capital and to satisfy current liabilities.

Closing

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.

It is currently anticipated that the Proposed Transaction will be completed on or about December 31, 2011.

RISKS AND UNCERTAINTIES

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company'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 Company incurred a net loss of $1,891,435 for the nine months ended September 30, 2011 and expects to incur losses from continuing operations for the foreseeable future. As at September 30, 2011, the Company had cash and cash equivalents of $453,769. The Company does not expect these funds will be sufficient to fund current product development and operating costs beyond the next six months. The Company currently has $2,352,871 in secured debentures due on or before March 31, 2012. In the event the Company is unable to meet these obligations, the terms of the debenture agreements would need to be renegotiated. The Company is currently seeking to raise additional capital through the issuance of further debentures and/or shares and warrants. The ability of the Company 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 Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company, particularly given the current challenging economic environment. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

To date, the Company has financed its business primarily through equity issuances tied to the achievement of key milestones. The Company 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 five debenture financings. The most recent financings were completed in January, February, May and September 2011. In April and August 2011, the Company announced a Proposed Transaction with Adagio Pharmaceuticals, which is expected to assist with current capital raising efforts.

Product Development: The Company 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 Company will attempt to develop safe and effective drug products, it is nonetheless an early stage company 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 Company 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 Company'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 the US Food and Drug Administration, 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 Company 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 Company 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 Company develops and therefore its business, results of operations, financial condition and cash flows.

Patent Applications: The Company'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 Company 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 Company 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 Company's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Company's products, that they will not imitate any of its products or that, if the Company 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 Company’s products infringe on their patent or other intellectual property rights, substantial litigation costs could be incurred and the Company 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 Company’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 Company’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 Company'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 Company’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 Company 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 Company'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 Company, 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 Company's collaborative partners could pursue other technologies or develop alternative products that could compete with the products the Company is developing. Any disruption with any partner, licensee or licensor could adversely affect the Company'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 Company'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 Company, this could have a material adverse effect on the Company's business, financial condition and results of its operations. The Company 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 Company 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 Company.

Competition: Competition within the pharmaceutical drug development industry is intense and is expected to increase in the future. The Company's competitors have long operating histories and greater financial, technical and marketing resources than the Company. The introduction of new drugs similar to those being developed by the Company by such competitors could materially and adversely affect the Company's business, results of operations and financial condition. There can be no assurance that the Company 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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