CYNAPSUS THERAPEUTICS INC.

Condensed Interim Financial Statements
For the Nine Months Ended September 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

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

	NOTES	September 30, 2011	December 31, 2010	January 1, 2010
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		453,769	193,484	483,197
Prepaid expenses and other current assets		64,335	46,262	113,903
		518,104	239,746	597,100
Non-current assets				
Equipment	7	8,362	10,434	14,249
Intangible assets	8	130,556	138,889	150,000
		657,022	389,069	761,349
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	9, 12	1,100,063	835,035	765,491
Debentures payable	10	2,001,525	668,826	-
		3,101,588	1,503,861	765,491
SHAREHOLDERS’ DEFICIENCY				
Share capital	11	9,541,166	9,140,310	8,961,130
Equity reserves				
Warrants	11	81,788	236,183	294,444
Share-based payments	11	840,236	849,469	826,472
(Deficit)		(12,907,756)	(11,340,754)	(10,086,188)
		(2,444,566)	(1,114,792)	(4,142)
		657,022	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:

“Ronald Hosking”, Director

“Rochelle Stenzler”, Director

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

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

		Three months		Nine months	
	NOTES	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
		$	**$**	**$**	**$**
EXPENSES					
Operating, general and administrative		212,135	268,158	1,067,365	884,928
Research and development		51,782	168,151	388,299	317,047
Share-based payments	11	27,313	32,980	79,017	129,824
Amortization of intangible assets	8	2,778	2,778	8,333	8,333
Depreciation of equipment	7	691	954	2,072	2,862
Foreign exchange loss		22,799	1,953	27,048	2,474
(Recovery) on scientific research		(13,967)	(106,074)	(68,967)	(111,147)
Operating (loss) for the period		(303,531)	(368,900)	(1,503,167)	(1,234,321)
Interest income		-	-	-	1,015
Other income		6,000	-	6,000	-
Finance costs	10	(178,648)	(32,377)	(386,459)	(32,377)
Other interest and related charges		(511)	(516)	(7,809)	(1,720)
(Loss) and (comprehensive loss) for the period		(476,690)	(401,793)	(1,891,435)	(1,267,403)
Basic and diluted loss per share		(0.00)	(0.00)	(0.02)	(0.01)
Weighted average number of shares outstanding		102,122,108	91,850,854	100,343,410	91,401,770

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

CYNAPSUS THERAPEUTICS INC.
Condensed Unaudited Interim Statements of Changes in Equity

As at January 1, 2010, September 30, 2010, December 31, 2010 and September 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)
Debenture issuances, value of shares	128,800	-	-	-	128,800
License option agreement, value of shares	75,000	-	-	-	75,000
Expiry of warrants	-	(58,261)	-	58,261	-
Expiry of share-based payments	-	-	(107,833)	107,833	-
Share-based payments	-	-	129,824	-	129,824
Comprehensive loss for the period	-	-	-	(1,267,403)	(1,267,403)
Activity from January 1 to September 30, 2010	203,800	(58,261)	21,991	(1,101,309)	(933,779)
Balance as at September 30, 2010	9,164,930	236,183	848,463	(11,187,497)	(937,921)
Debenture issuance, value of shares	12,880	-	-	-	12,880
License option agreement, value of shares	(37,500)	-	-	-	(37,500)
Expiry of share-based payments	-	-	(22,251)	22,251	-
Share-based payments	-	-	23,257	-	23,257
Comprehensive loss for the period	-	-	-	(175,508)	(175,508)
Activity from October 1 to December 31, 2010	(24,620)	-	1,006	(153,257)	(176,871)
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
Debenture issuances, value of shares	214,759	-	-	-	214,759
Expiry of warrants	-	(236,183)	-	236,183	-
Expiry of share-based payments	-	-	(88,250)	88,250	-
Share-based payments	-	-	79,017	-	79,017
Comprehensive loss for the period	-	-	-	(1,891,435)	(1,891,435)
Activity from January 1 to September 30, 2011	400,856	(154,395)	(9,233)	(1,567,002)	(1,329,774)
Balance as at September 30, 2011	9,541,166	81,788	840,236	(12,907,756)	(2,444,566)

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 nine month periods ended September 30, 2011 and 2010
(in Canadian dollars)

	NOTES	Three months September 30, 2011	Three months September 30, 2010	Nine months September 30, 2011	Nine months September 30, 2010
		$	$	$	$
Cash provided by (used in)					
Operating activities					
Loss for the period		(476,690)	(401,793)	(1,891,435)	(1,267,403)
Items not affecting cash:					
Share-based payments	11	27,313	32,980	79,017	129,824
Amortization of intangible assets	8	2,778	2,778	8,333	8,333
Depreciation of equipment	7	691	954	2,072	2,862
Debenture accretion expense	10	117,121	21,155	278,358	21,155
Accrual of debenture interest expense	10	61,527	11,222	108,101	11,222
Shares issued for license option	11	-	75,000	-	75,000
		(267,260)	(257,704)	(1,415,554)	(1,019,007)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		46,554	(19,552)	(18,073)	22,744
Change in accounts payables and accrued liabilities		63,483	(106,028)	265,027	216,786
Net cash (used in) operating activities		(157,223)	(383,284)	(1,168,600)	(779,477)
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	425,000	644,000	1,161,000	644,000
Deferred financing costs		-	35,977	-	-
Net cash generated from financing activities		425,000	679,977	1,428,885	644,000
Increase (Decrease) in cash and cash equivalents		267,777	296,693	260,285	(135,477)
Cash and cash equivalents, beginning of period		185,992	51,027	193,484	483,197
Cash and cash equivalents, end of period		453,769	347,720	453,769	347,720
Cash and cash equivalents consist of:					
Cash		453,769	347,720	453,769	347,720
Cash equivalents		-	-	-	-
		453,769	347,720	453,769	347,720

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)
The accompanying notes are an integral part of these condensed interim financial statements.

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 Company are located at 828 Richmond Street, Toronto, Ontario, Canada, M6J 1C9.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These are the Company's third IFRS condensed interim financial statements representing the third quarter of the period covered by the first 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 November 9, 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.

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.

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.

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.

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.

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 September 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.

5. TRANSITION TO IFRS

As stated in Note 2, these are the Company's third IFRS condensed interim financial statements representing the third period covered by the first annual financial statements prepared in accordance with IFRS for the year ending December 31, 2011. 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 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" (lFRS 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:

(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	September 30, 2010	December 31, 2010
Reserve – Share-based payments	826,472	848,463	849,469
Contributed surplus	(1,275,985)	(1,400,698)	(1,425,937)
(Deficit)	449,513	552,235	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	September 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 September 30, 2010.
- Reconciliation of statement of operations and comprehensive loss for the nine months ended September 30, 2010.
- Reconciliation of statement of financial position as of September 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.

(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

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

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

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
REVENUES	-	-	-	-
EXPENSES				
Operating, general and administrative	303,004	-	(34,846)	268,158
Research and development	168,151	-	-	168,151
Share-based payments	31,115	1,865		32,980
Amortization of intangible assets	2,778	-	-	2,778
Depreciation of equipment	954	-	-	954
Foreign exchange loss	-	-	1,953	1,953
Recovery on scientific research	(106,074)	-	-	(106,074)
Expenses	399,928	1,865	(32,893)	368,900
Operating profit (loss) for the period	(399,928)	(1,865)	32,893	(368,900)
Interest income	-	-	-	-
Finance costs	-	-	(32,377)	(32,377)
Other interest and related charges	-	-	(516)	(516)
Comprehensive (loss) for the period	(399,928)	(1,865)	-	(401,793)

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of statement of operations and comprehensive loss for the nine months ended September 30, 2010

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
REVENUES	1,015	-	(1,015)	-
EXPENSES				
Operating, general and administrative	921,499	-	(36,571)	884,928
Research and development	317,047	-	-	317,047
Share-based payments	124,713	5,111	-	129,824
Amortization of intangible assets	8,333	-	-	8,333
Depreciation of equipment	2,862	-	-	2,862
Foreign exchange loss	-	-	2,474	2,474
Recovery on scientific research	(111,147)	-	-	(111,147)
Expenses	1,263,307	5,111	(34,097)	1,234,321
Operating profit (loss) for the period	(1,262,292)	(5,111)	33,082	(1,234,321)
Interest income	-	-	1,015	1,015
Finance costs	-	-	(32,377)	(32,377)
Other interest and related charges	-	-	(1,720)	(1,720)
Comprehensive (loss) for the period	(1,262,292)	(5,111)	-	(1,267,403)

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

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

	Canadian GAAP Balances	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
ASSETS				
Current assets				
Cash and cash equivalents	347,720	-	-	347,720
Prepaid expenses and other current assets	91,159	-	-	91,159
	438,879	-	-	438,879
Non-current assets				
Equipment	11,387	-	-	11,387
Intangible assets	141,667	-	-	141,667
	591,933	-	-	591,933
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	982,277	-	-	982,277
Debentures payable	547,577	-	-	547,577
	1,529,854	-	-	1,529,854
SHAREHOLDERS' DEFICIENCY				
Share capital	9,164,930	-	-	9,164,930
Equity reserves		-	-	
Warrants	236,183	-	-	236,183
Share-based payments	-	129,824	718,639	848,463
Contributed Surplus	2,024,570	(124,713)	(1,899,857)	-
(Deficit)	(12,363,604)	(5,111)	1,181,218	(11,187,497)
	(937,921)	-	-	(937,921)
	591,933	-	-	591,933

(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)

(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' DEFICIENCY				
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

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 September 30, 2011, the Company had cash and cash equivalents of $453,769 and prepaid expenses and other current assets of $64,335 (December 31, 2010 - $193,484 and $46,262) to settle current liabilities of $3,101,588 (December 31, 2010 - $1,503,861). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The terms of the debentures payable are disclosed in Note 10. The Company believes movement in interest rates is "reasonably possible" over the next 12 months. Since cash and cash equivalents have varying terms and rates, sensitivity to a plus or minus 1% change in rates could affect its net loss by approximately $4,000.

Market risk

(i) Interest rate risk

The Company has cash and cash equivalent balances and debentures payable as at September 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 September 30, 2011, the Company has $2,180,457 in debentures bearing 10% interest per annum (See Note 10). A debenture of $105,747 plus interest is due and payable before November 30, 2011 and debentures totalling $2,074,710 plus interest are due and payable before March 30, 2012.

(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.

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 Company 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 Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its research and development activities. The Company'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 Company's management to sustain future development of the business.

The products which the Company currently has in its pipeline are in the research and development stage; as such the Company 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 Company 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 Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

(in Canadian dollars)

7. EQUIPMENT

The following is a summary of equipment as at January 1, 2010, December 31, 2010, and September 30, 2011:

	Computer Equipment	Furniture and Equipment	Total
	$	$	$
Cost			
Cost at January 1, 2010, December 31, 2010 and September 30, 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	1,520	552	2,072
Accumulated depreciation at September 30, 2011	10,030	6,196	16,226
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 September 30, 2011	5,240	3,122	8,362

(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 September 30, 2011	200,000
Accumulated amortization	
Balance at January 1, 2010	50,000
Amortization	11,111
Balance at December 31, 2010	61,111
Amortization	8,333
Balance at September 30, 2011	69,444
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 September 30, 2011	130,556

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade payables	618,908	595,075	505,648
Due to related parties (Note 12)	438,655	197,440	98,560
Accrued liabilities	22,500	22,520	81,283
Provision for disputes (Note 14)	20,000	20,000	80,000
	1,100,063	835,035	765,491

(in Canadian dollars)

10. DEBENTURES PAYABLE

The Series A to E debentures currently bear interest at a rate of 10% per annum and provide for a 13% capital discount. The Series A to D debentures originally accrued interest at a rate of 8% and had an 8% capital discount, however, on September 29, 2011 these terms were amended to be consistent with the Series E terms. Accordingly, the accrued interest increased during the period and the face value of the debentures increased as a result of the change in capital discount. The debentures are secured by security interests in the assets of the Company as follows:

Debentures	Original Face Value (8% Capital Discount)	Current Face Value (13% Capital Discount)	Net Proceeds	Issue Date	Due Date	Priority Rank on Future License Fees	Priority Rank on All Other Assets
	$	$	$				
Series A	700,000	740,230	644,000	July 19, and July 26, 2010	March 30, 2012	2nd	2nd
Series B	100,000	105,747	92,000	November 24, 2010	November 30, 2011	1st	2nd
Series C	300,000	317,241	276,000	January 28, 2011	March 30, 2012	2nd	2nd
Series D	500,000	528,736	460,000	May 25, 2011	March 30, 2012	2nd	1st
Series E	-	488,503	425,000	September 29, 2011	March 30, 2012	2nd	1st
	1,600,000	2,180,457	1,897,000				

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

	Debentures
	$
Balance as at January 1, 2010	-
Debentures issuances, January 1, 2010 to December 31, 2010	
Series A Original Face Value	700,000
Original 8% Capital discount	(56,000)
Net Proceeds	644,000
Value of 2,576,000 shares issued as debenture bonus shares	(128,800)
	515,200
Debenture accretion expense, January 1, 2010 to September 30, 2010	21,155
Accrual of debenture interest expense, January 1, 2010 to September 30, 2010	11,222
Balance as at September 30, 2010	547,577

(in Canadian dollars)

10. DEBENTURES PAYABLE (continued)

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

	Debentures
	$
Balance as at September 30, 2010	547,577
Debentures issuances, October 1, 2010 to December 31, 2010	
Series B Original Face Value	100,000
Original 8% Capital discount	(8,000)
Net Proceeds	92,000
Value of 368,000 shares issued as debenture bonus shares	(12,880)
	79,120
Debenture accretion expense, October 1, 2010 to December 31, 2010	27,181
Accrual of debenture interest expense, October 1, 2010 to December 31, 2010	14,948
Balance as at December 31, 2010	668,826
Debenture issuances January 1, 2011 to September 30, 2011	
Series C and Series D Original Face Value	800,000
Original 8% Capital discount	(64,000)
Net Proceeds	736,000
Value of 2,944,000 shares issued as debenture bonus shares	(163,760)
	572,240
Debenture accretion expense, Series C and Series D debentures	161,237
Accrual of debenture interest expense, Series C and Series D debentures	46,574
	1,448,877
Series E Face Value	488,503
13% Capital discount	(63,503)
Net Proceeds	425,000
Value of 1,700,000 shares issued as debenture bonus shares	(51,000)
	374,000
Debenture accretion expense, January 1, 2011 to September 30, 2011, including $2,643 adjustment to Series A to D debentures as a result of the September 29, 2011 amendment	278,358
Accrual of debenture interest expense, January 1, 2011 to September 30, 2011, including $18,612 adjustment to Series A to D debentures as a result of the September 29, 2011 amendment	108,101
Balance as at September 30, 2011	**2,001,525**

(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 on July 19, 2010	1,913,600
Shares issued for debentures on July 26, 2010	662,400
Shares issued for license option agreement on September 14, 2010	750,000
Shares issued for debenture on November 24, 2010	368,000
Balance, December 31, 2010	93,359,219
Shares issued for debentures on January 28, 2011	1,104,000
Shares issued for cash on February 2, 2011	5,800,000
Shares issued for debentures on May 25, 2011	1,840,000
Shares issued for debentures on September 29, 2011	1,700,000
Balance, September 30, 2011	103,803,219

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 $0.05 per share. The shares were valued based on the $0.065 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 shares were valued based on the $0.05 closing trading price of a common share on the date of issuance.

On September 29, 2011, the Company completed a financing of secured debentures in the aggregate principal amount of $488,503 (See Note 10). As part of the financing, the Company issued 1,700,000 common shares at a price of $0.05 per share. The shares were valued based on the $0.03 closing trading price of a common share on the date of issuance.

(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 Company 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 September 30, 2011, 3,460,891of the 72-month release shares are still subject to escrow.

iii) Reserve - Warrants

	Number of Warrants	Estimated Grant Date Fair Value	Weighted Average
	#	$	Price /
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
Expired August 6, 2011	(8,260,450)	(146,508)	0.148
Expired August 31, 2011	(1,967,900)	(34,866)	0.148
Balance, September 30, 2011	5,800,000	81,788	0.100

Warrants outstanding and exercisable as at September 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	$	
5,800,000	5,800,000	0.10	81,788	February 2, 2013

The weighted average grant date fair value of the warrants issued during the period ended September 30, 2011 is $0.01 (December 31, 2010: $nil).

(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	1,150,000	1,150,000	0.100
Expired	(375,000)	(1,125,000)	0.289
Options outstanding as at September 30, 2011	8,035,000	8,935,000	0.173

On August 19, 2011 the Company granted stock options to acquire 400,000 common shares. The stock options were granted to an officer of the Company 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.

(in Canadian dollars)

11. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

The weighted average grant date fair value of the stock options issued during the period ended September 30, 2011 is $0.03 (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 September 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 127% - 128% (December 31, 2010: 122% - 127%), risk free rates of return of 1.23% - 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.

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

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price ($/share)	Expiry Date
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
400,000	400,000	0.100	August 19, 2016
8,035,000	8,935,000		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2011 is 7,368,331. The weighted average exercise price of these common shares as at September 30, 2011 is $0.198.

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at September 30, 2011 is 2.16 years and 2.47 years, respectively.

(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 and nine month period ended September 30, 2011 are included in operating, general and administrative expenses and research and development expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	$	$	$	$
Management fees to CEO (OG&A)	36,000	36,000	108,000	106,000
Salaries to other key management (OG&A)	61,323	72,736	180,442	139,957
Director fees (OG&A)	22,250	4,300	155,213	34,050
Consulting services (OG&A)	-	-	-	28,000
Consulting services (R&D)	19,786	2,500	122,728	2,500
	139,359	115,536	566,383	310,507

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 (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 September 30, 2011, $70,258 (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 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 these financial statements (See Note 14).

(in Canadian dollars)

13. NON-CASH TRANSACTIONS

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
	$	$	$	$
The following significant transactions did not generate or use cash:				
Value of shares issued for debenture bonus shares and license option agreement	51,000	166,300	214,759	166,300
Expiry of warrants	(181,374)	-	(236,183)	(58,261)
Share-based payments	27,313	32,980	79,017	129,824
Expiry of share-based payments	(49,500)	(40,000)	(88,250)	(107,833)

14. CONTINGENT LIABILITIES

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 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 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.

15. PROPOSED TRANSACTION

On August 17, 2011, the Company announced that it intends to proceed with the acquisition of Adagio Pharmaceuticals Limited ("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.

<u>Related Party Transaction</u>

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.

15. PROPOSED TRANSACTION (continued)

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.

15. PROPOSED TRANSACTION (continued)

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.

16. SUBSEQUENT EVENTS

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

(b) 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.