CYNAPSUS THERAPEUTICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

(Expressed in Canadian Dollars)

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MHC McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cynapsus Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Cynapsus Therapeutics Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cynapsus Therapeutics Inc. and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4 in the consolidated financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 23, 2012

CYNAPSUS THERAPEUTICS INC.
Consolidated Statements of Financial Position

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

	NOTES	December 31, 2011	December 31, 2010	January 1, 2010
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		294,812	193,484	483,197
Prepaid expenses and other current assets		53,233	46,262	113,903
Total current assets		348,045	239,746	597,100
Non-current assets				
Equipment	8	7,672	10,434	14,249
Intangible assets	7, 9	845,929	138,889	150,000
Total assets		1,201,646	389,069	761,349
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	10, 13	1,389,004	835,035	765,491
Debentures payable	11	2,646,446	668,826	-
Total current liabilities		4,035,450	1,503,861	765,491
SHAREHOLDERS' DEFICIENCY				
Share capital	12	10,131,200	9,140,310	8,961,130
Equity reserves				
Warrants	12	49,997	236,183	294,444
Share-based payments	12	793,567	849,469	826,472
(Deficit)		(13,808,568)	(11,340,754)	(10,086,188)
Total shareholders' deficiency		(2,833,804)	(1,114,792)	(4,142)
Total liabilities and shareholders' deficiency		1,201,646	389,069	761,349

COMMITMENTS AND CONTINGENCIES (Notes 7, 11 and 15)
GOING CONCERN (Note 4)

APPROVED BY THE BOARD:

"Ronald Hosking", Director   "Rochelle Stenzler", Director

The accompanying notes are an integral part of these consolidated financial statements

CYNAPSUS THERAPEUTICS INC.
Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2011 and 2010
(in Canadian dollars)

	NOTES	December 31, 2011	December 31, 2010
		$	$
EXPENSES			
Operating, general and administrative		1,236,297	1,121,766
Research and development		907,483	454,027
Share-based payments	12	87,348	153,081
Amortization of intangible assets	9	11,110	11,111
Depreciation of equipment	8	2,762	3,815
Foreign exchange loss		23,094	(9,656)
(Recovery) on scientific research		(51,467)	(135,780)
Forgiveness of debt		-	(230,688)
Operating loss for the year		2,216,627	1,367,676
OTHER LOSS (INCOME)			
Interest income		-	(1,015)
Other income		(9,300)	-
Finance costs	11	631,980	74,506
Other interest and related charges		7,940	1,744
Loss and comprehensive loss for the year		2,847,247	1,442,911
Loss per share - basic and diluted		0.03	0.02
Weighted average number of shares outstanding – basic and diluted		101,961,378	91,162,628

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010
(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 issuance, value of shares	141,680	-	-	-	141,680
License option agreement, value of shares	37,500	-	-	-	37,500
Expiry of warrants	-	(58,261)	-	58,261	-
Expiry of share-based payments	-	-	(130,084)	130,084	-
Share-based payments	-	-	153,081	-	153,081
Loss for the year	-	-	-	(1,442,911)	(1,442,911)
Activity for the year	179,180	(58,261)	22,997	(1,254,566)	(1,110,650)
Balance as at December 31, 2010	9,140,310	236,183	849,469	(11,340,754)	(1,114,792)
Private placement, net of transaction costs	217,330	-	-	-	217,330
Private placement, net of transaction costs	-	49,997	-	-	49,997
Debenture issuances, value of shares	253,560	-	-	-	253,560
Acquisition of intangible asset, value of shares	520,000	-	-	-	520,000
Expiry of warrants	-	(236,183)	-	236,183	-
Expiry of share-based payments	-	-	(143,250)	143,250	-
Share-based payments	-	-	87,348	-	87,348
Loss for the year	-	-	-	(2,847,247)	(2,847,247)
Activity for the year	990,890	(186,186)	(55,902)	(2,467,814)	(1,719,012)
Balance as at December 31, 2011	10,131,200	49,997	793,567	(13,808,568)	(2,833,804)

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(in Canadian dollars)

	NOTES	December 31, 2011	December 31, 2010
		$	$
Cash provided by (used in)			
Operating activities			
Loss for the year		(2,847,247)	(1,442,911)
Items not affecting cash:			
Share-based payments		87,348	153,081
Amortization of intangible assets		11,110	11,111
Depreciation of equipment		2,762	3,815
Debenture accretion expense		465,322	48,336
Accrual of debenture interest expense		166,658	26,170
Shares issued for license option		-	37,500
Forgiveness of debt		-	(230,688)
		(2,114,047)	(1,393,586)
Changes in non-cash operating items:			
Change in prepaid expenses and other current assets		(6,971)	67,641
Change in accounts payables and accrued liabilities		400,818	300,232
Net cash (used in) operating activities		(1,720,200)	(1,025,713)
Investing activities			
Acquisition of intangible assets	7	(44,999)	-
Net cash (used in) investing activities		(44,999)	-
Financing activities			
Gross proceeds from issuance of shares and warrants		290,000	-
Finance and share issuance costs		(49,473)	-
Proceeds from issuance of debentures and bonus shares		1,646,000	736,000
Partial repayment of debenture		(20,000)	-
Net cash generated from financing activities		1,866,527	736,000
Increase (decrease) in cash and cash equivalents		101,328	(289,713)
Cash and cash equivalents, beginning of year		193,484	483,197
Cash and cash equivalents, end of year		294,812	193,484

SUPPLEMENTARY CASH FLOW INFORMATION (Note 14)

The accompanying notes are an integral part of these consolidated 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 (“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 West, Toronto, Ontario, Canada, M6J 1C9.

On December 22, 2011, Cynapsus acquired Adagio Pharmaceuticals Ltd. (“Adagio”) (See Note 7). The agreement and the issuance of common shares of Cynapsus as consideration pursuant to the agreement was approved by Cynapsus’ shareholders at a special shareholder meeting held on November 30, 2011. The transaction received final approval of the board of directors of Cynapsus on December 15, 2011.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

These are the Company's first annual consolidated financial statements presented in accordance with International Financial Reporting Standards (“IFRS”) 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 March 23, 2012, the Board of Directors authorized these consolidated financial statements for filing and release.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 consolidated 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 payments 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 consolidated financial statements are described below.

Basis of measurement and going concern
These consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern using the historical cost basis. Due to continuing operating losses and a working capital deficiency, 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 consolidated 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 consolidated financial statements. Such adjustments could be material.

Basis of consolidation
The financial statements consolidate the financial statements of Cynapsus Therapeutics Inc. and its wholly-owned subsidiary, Adagio Pharmaceuticals Ltd. All significant intercompany transactions and balances have been eliminated.

Subsidiaries
Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. The Company has a shareholding of more than one half of the voting rights in its subsidiary. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

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 consolidated statement of financial position 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(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.

(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 and approximate fair value 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. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less transaction costs and when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest method. The carrying amount of accounts payable and accrued liabilities approximates fair value due to their short term nature. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As at December 31, 2011, the Company had $Nil cash equivalents (December 31, 2010 - $Nil; January 1, 2010 - $380,000).

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.

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 – 20% per annum

Intangible assets

Intangible assets comprise a license for intellectual property that expires when the last patent expires, and intellectual property that was acquired. The license for intellectual property 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. The intellectual property acquired is recorded at cost and is amortized on a straight line basis over an estimated useful life of 15 years and any accumulated impairment losses.

Impairment of non-financial assets

The carrying amounts 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 estimated market value on the earlier of the date the shares are issued or the goods or services are received from the counterparty.

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 consolidated 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 statement of financial position 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.

Share-based payments
The Company has a stock option plan that is described in Note 12(iv). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting period. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. 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 consolidated statement of financial position date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the determination of loss for the period.

Loss per share

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated assuming 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. All shares issuable from options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended December 31, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet applied (continued)

IFRS 13 *Fair Value Measurement* ("IFRS 13") 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 consolidated financial statements.

5. TRANSITION TO IFRS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. An explanation of how the transition from previous Canadian 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 consolidated financial statements for the period ended December 31, 2011, the comparative information presented in these consolidated financial statements for the period ended December 31, 2010 and in the preparation of an opening IFRS Consolidated Statement of Financial Position at January 1, 2010 (the Company's "Transition Date").

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 apply the following exemptions:

- *IFRS 2, Share-Based Payments*, to equity instruments which vested before the Company's Transition Date.

- *IAS 23, Borrowing Costs*, prospectively from the Transition Date, 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 not 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 Consolidated Statement of Financial Position, Consolidated Statement of Operations and Comprehensive Loss and Consolidated 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 Consolidated Statements of Financial Position

	January 1, 2010	December 31, 2010
Equity Reserve – Share-based payments	826,472	849,469
Contributed surplus	(1,275,985)	(1,425,937)
(Deficit)	449,513	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 to contributed surplus.

Impact on Consolidated Statements of Financial Position

	January 1, 2010	December 31, 2010
Contributed surplus	(565,611)	(623,872)
(Deficit)	565,611	623,872

Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following Consolidated Statements of Financial Position and Consolidated Statement 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 Consolidated Statement of Financial Position as of January 1, 2010.
- Reconciliation of Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2010.
- Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010.

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated 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' DEFICIENCY				
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 Consolidated Statement of Operations and Comprehensive Loss for the year 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)
	1,440,797	3,129	(76,250)	1,367,676
Operating profit (loss) for the year	(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 year	(1,439,782)	(3,129)	-	(1,442,911)

(in Canadian dollars)

5. TRANSITION TO IFRS (continued)

Reconciliation of Consolidated 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 and cash equivalents balance is on deposit with a Canadian chartered bank. The Company has no significant concentration of credit risk arising from operations. 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 December 31, 2011, the Company had cash and cash equivalents of $294,812 and prepaid expenses and other current assets of $53,233 (2010 - $193,484 and $46,262) to settle current liabilities of $4,035,451 (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 11. 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 $3,000.

Market risk

(i) Interest rate risk
The Company has cash and cash equivalent balances and debentures payable as at December 31, 2011. The Company’s current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions bearing interest at 0.5% per annum. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments are short term and the debentures have a fixed rate of interest. As at December 31, 2011, the Company has a face value of $2,737,927 (2010 - $800,000) in debentures bearing 10% interest per annum (See Note 11). The Series B debenture of $105,747 plus interest was due and payable before March 24, 2011. The Company negotiated with the debt holder to extend the maturity date until November 30, 2011. Since $20,000 of the debenture was paid, a balance of $85,747 is still outstanding and continues to accumulate interest. Debentures with a face value totalling $2,402,295 plus interest are due and payable before March 30, 2012, and the Series E4 debenture totalling $229,885 plus interest is due and payable before December 30, 2012. As part of a subsequent Series E5 debenture financing, the Series A-E debentures due dates were amended to February 28, 2013 (See Note 17).

(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.

6. RISK MANAGEMENT (continued)

Market risk (continued)

(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.

(iv) Fair value

IFRS require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the Statement of Financial Position 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 Consolidated Statement of Financial Position approximate fair value because of the limited term of these instruments.

The carrying amount of the debentures payable on the Consolidated Statement of Financial Position approximates fair value as the interest rate approximates the current rate for similar instruments.

As at December 31, 2011 and 2010 the Company does not have any financial instruments measured at fair value that require classification within the fair value hierarchy.

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 years ended December 31, 2011 and 2010. The Company and its subsidiary are not subject to externally imposed capital requirements.

(in Canadian dollars)

7. ACQUISITION OF ADAGIO PHARMACEUTICALS LTD.

On July 26, 2010, the Company entered into a license option agreement with Adagio granting the Company the option to execute a proposed exclusive, worldwide agreement to license all intellectual property relating to APL-130277, a reformulation of an approved Parkinson's drug. The two parties also finalized an exclusive worldwide license that would result in the Company assuming product development and commercialization rights to APL-130277 from Adagio in return for development milestones and royalties to Adagio, including common shares of the Company. The Company issued 750,000 common shares at an estimated fair value of $0.05 per share to Adagio. The license agreement included an exclusive option period for the first twelve months which allowed the Company to conduct further due diligence and proof-of-concept studies for APL-130277 prior to executing the full license. The Company had the option to exercise the option on or before July 22, 2011 by issuing shares equal to a fair market value of $200,000, based on a price equal to the greater of the average of the Company shares for the fifteen days prior to the exercise date or a price of $0.10 per share. On July 19, 2011, the license option agreement was amended to extend the expiration of the option period from July 22, 2011 to December 31, 2011.

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio (the "Transaction"). The results of Adagio's operations have been included in these consolidated financial statements since the acquisition date. The acquisition was accounted for as a purchase of assets by the Company from Adagio as Adagio did not meet the definition of a business.

The aggregate purchase price was $702,987 including common shares valued at $520,000 and $182,987 of costs related to the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Consideration paid:		
Value of common shares issued	$	520,000
Transaction costs		182,987
	$	702,987
Net assets acquired:		
Current assets	$	71
Intangible assets		718,150
Current liabilities		(15,234)
	$	702,987

Terms of the Transaction

The Transaction was structured as a share exchange with Adagio shareholders receiving newly issued common shares of the Company in exchange for all of the issued and outstanding shares of Adagio. Adagio shareholders will be entitled to the following payments pursuant to the Transaction:

a) the immediate issuance of 26,000,000 common shares. The value of the shares of $520,000 was calculated based on the $0.02 closing trading price of a common share on the date of issuance;

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 study;

7. ACQUISITION OF ADAGIO PHARMACEUTICALS LTD. (continued)

Terms of the Transaction (continued)

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.

Related Party Transaction

The Transaction constituted a related party transaction. The President and Chief Executive Officer of Cynapsus, was also a director, officer and majority shareholder of Adagio. To satisfy the Board of Director's fiduciary duties and to appropriately manage the related party transaction, the Board of Directors saw fit to appoint an independent Special Committee of the Board with independent legal counsel. In addition, the Special Committee of the Board of Directors retained an independent US FINRA/SIPC registered financial advisor to provide a fairness opinion. The Company also obtained minority shareholder approval.

Escrow Arrangements

Escrow release conditions apply to the 26,000,000 common shares that were issued to the Adagio shareholders. These conditions defer release of the initial consideration shares until specified capital raising thresholds totalling $8,000,000 have been achieved.

The initial share consideration consisting of 26,000,000 common shares will be released as follows under a corporate escrow agreement:

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

b) a further 3,250,000 common shares are to be released upon completion of capital raises, including the amount referred to in a) above, in the aggregate amount of $2,000,000.

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

The 13,990,660 common shares issued to the President and Chief Executive Officer of Cynapsus will be subject to a separate and distinct contractual escrow. The escrow arrangement will provide, among other things, that:

a) 25% of all such common shares will be released immediately; and

b) 75% of all such common shares will be placed into escrow provided that 1/3 of the common shares will be released on each of the 12 month anniversaries of the closing of the Transaction.

Based on the above corporate and contractual escrow agreements, 1,938,381 common shares have been released, such that 24,061,619 of the 26,000,000 common shares remain in escrow. Of the 1,938,381 common shares released from escrow, 437,206 common shares are to be released to the President and Chief Executive Officer of Cynapsus. All released common shares are subject to a 4-month hold period.

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.

(in Canadian dollars)

8. EQUIPMENT

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

	Computer Equipment	Furniture and Fixtures	Total
	$	$	$
Cost			
Cost at January 1, 2010, December 31, 2010 and December 31, 2011	15,270	9,318	24,588
Accumulated depreciation			
Accumulated depreciation at January 1, 2010	5,613	4,726	10,339
Depreciation	2,897	918	3,815
Accumulated depreciation at December 31, 2010	8,510	5,644	14,154
Depreciation	2,028	734	2,762
Accumulated depreciation at December 31, 2011	10,538	6,378	16,916
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 December 31, 2011	4,732	2,940	7,672

(in Canadian dollars)

9. 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.

	APL-130277	License Agreement	Total
	$	$	$
Cost			
Cost at January 1, 2010 and December 31, 2010	-	200,000	200,000
Additions	718,150	-	718,150
Cost at December 31, 2011	718,150	200,000	918,150
Accumulated depreciation			
Balance at January 1, 2010	-	50,000	50,000
Amortization	-	11,111	11,111
Balance at December 31, 2010	-	61,111	61,111
Amortization	-	11,110	11,110
Balance at December 31, 2011	-	72,221	72,221
Net book value			
Net book value as at January 1, 2010	-	150,000	150,000
Net book value as at December 31, 2010	-	138,889	138,889
Net book value as at December 31, 2011	718,150	127,779	845,929

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio (See Note 7). The acquisition was accounted for as a purchase of assets by the Company from Adagio as Adagio did not meet the definition of a business. The aggregate purchase price was $702,987 including common shares valued at $520,000 and $182,987 of costs related to the acquisition. After the inclusion of Adagio’s assets ($71) and liabilities ($15,234), $718,150 was recorded to intangible assets.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade payables	867,364	595,075	505,648
Due to related parties (Note 13)	439,877	197,440	98,560
Accrued liabilities	81,763	22,520	81,283
Provision for disputes	-	20,000	80,000
	1,389,004	835,035	765,491

(in Canadian dollars)

11. 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 debenture terms. Accordingly, the accrued interest increased to 10% during the year and the face value of the debentures increased as a result of the increase in capital discount to 13%.

The debentures are secured by security interests in all the assets of the Company as follows on December 31, 2011:

	Original Face Value (8% Capital Discount)	Current Face Value (13% Capital Discount)	Net Proceeds	Issue Date	Due Date*	Priority Rank on All Assets
Series A1	$ 520,000	$ 549,885	$ 478,400	July 19, 2010	March 30, 2012	2nd
Series A2	180,000	190,344	165,600	July26, 2010	March 30, 2012	2nd
Series B	100,000	105,747	92,000	November 24, 2010	November 30, 2011	2nd
Series C	300,000	317,241	276,000	January 28, 2011	March 30, 2012	2nd
Series D	500,000	528,736	460,000	May 25, 2011	March 30, 2012	1st
Series E1	-	488,503	425,000	September 29, 2011	March 30, 2012	1st
Series E2	-	172,414	150,000	November 4, 2011	March 30, 2012	1st
Series E3	-	155,172	135,000	December 15, 2011	March 30, 2012	1st
Series E4	-	229,885	200,000	December 28, 2011	December 30, 2012	1st
	$ 1,600,000	$ 2,737,927	$2,382,000			

* As part of a subsequent Series E5 debenture financing, the Series A-E debentures due dates were amended to February 28, 2013 (See Note 17).

The value of the debentures and bonus shares (see Note 12(ii)) are as follows as at December 31, 2011:

Debentures	Net Proceeds	Bonus Shares Issued	Share Price on Date of Issuance	Value of Bonus Shares	Value of Debentures
	$	#	$/share	$	$
Series A1	478,400	1,913,600	0.050	95,680	382,720
Series A2	165,600	662,400	0.050	33,120	132,480
Series B	92,000	368,000	0.035	12,880	79,120
Series C	276,000	1,104,000	0.065	71,760	204,240
Series D	460,000	1,840,000	0.050	92,000	368,000
Series E1	425,000	1,700,000	0.030	51,000	374,000
Series E2	150,000	600,000	0.020	12,000	138,000
Series E3	135,000	540,000	0.020	10,800	124,200
Series E4	200,000	800,000	0.020	16,000	184,000
	2,382,000	9,528,000		395,240	1,986,760

(in Canadian dollars)

11. DEBENTURES PAYABLE (continued)

The changes in the value of debentures from January 1, 2010 to December 31, 2011 are as follows:

	Debentures
	$
Balance, January 1, 2010	-
Series A1 debentures, present value on July 19, 2010	382,720
Series A2 debentures, present value on July 26, 2010	132,480
Series B debenture, present value on November 24, 2010	79,120
Debenture accretion expense for the year	48,336
Debenture interest expense accrual for the year	26,170
Balance, December 31, 2010	668,826
Series C debenture, present value on January 28, 2011	204,240
Series D debenture, present value on May 25, 2011	368,000
Series E1 debenture, present value on September 29, 2011	374,000
Series E2 debenture, present value on November 4, 2011	138,000
Series E3 debenture, present value on December 15, 2011	124,200
Series E4 debenture, present value on December 28, 2011	184,000
Finance costs	(26,800)
Debenture accretion expense for the year	465,322
Debenture interest expense accrual for the year	166,658
Partial repayment of Series B debenture	(20,000)
Balance, December 31, 2011	2,646,446

(in Canadian dollars)

12. 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 Series A1 debentures on July 19, 2010	1,913,600
Shares issued for Series A2 debentures on July 26, 2010	662,400
Shares issued for license option agreement on September 14, 2010	750,000
Shares issued for Series B debentures on November 24, 2010	368,000
Balance, December 31, 2010	93,359,219
Shares issued for Series C debentures on January 28, 2011	1,104,000
Shares issued for cash on February 2, 2011	5,800,000
Shares issued for Series D debentures on May 25, 2011	1,840,000
Shares issued for Series E1 debentures on September 29, 2011	1,700,000
Shares issued for Series E2 debentures on November 4, 2011	600,000
Shares issued for Series E3 debentures on December 15, 2011	540,000
Shares issued for acquisition of Adagio on December 22, 2011	26,000,000
Shares issued for Series E4 debentures on December 28, 2011	800,000
Balance, December 31, 2011	131,743,219

On July 19, 2010, the Company completed a financing of secured Series A1 debentures in the aggregate principal amount of $520,000 (See Note 11). As part of the financing, the Company issued 1,913,600 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On July 26, 2010, the Company completed a financing of secured Series A2 debentures in the aggregate principal amount of $180,000 (See Note 11). As part of the financing, the Company issued 662,400 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On September 14, 2010 the Company issued 750,000 common shares to Adagio based on a price of $0.05 per share. The share price was estimated based on the trading price of the common shares on the date of issuance (See Note 7).

12. SHARE CAPITAL (continued)

ii) Issued and outstanding common shares (continued)

On November 24, 2010, the Company completed a financing of a secured Series B debentures in the aggregate principal amount of $100,000 (See Note 11). As part of the financing, the Company issued 368,000 common shares to the debenture holder at a price of $0.035 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On January 28, 2011, the Company completed a financing of secured Series C debentures in the aggregate principal amount of $300,000 (See Note 11). As part of the financing, the Company issued 1,104,000 common shares to the debenture holders at a price of $0.065 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

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 raising gross proceeds of $290,000. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of $0.10 per share until February 2, 2013. The grant date fair value of the warrants was estimated at $54,124 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, of which $4,127 was allocated to warrants.

On May 25, 2011, the Company completed a financing of secured Series D debentures in the aggregate principal amount of $500,000 (See Note 11). As part of the financing, the Company issued 1,840,000 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On September 29, 2011, the Company completed a financing of secured Series E1 debentures in the aggregate principal amount of $488,503 (See Note 11). As part of the financing, the Company issued 1,700,000 common shares to the debenture holders at a price of $0.03 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On November 4, 2011, the Company completed a financing of secured Series E2 debentures in the aggregate principal amount of $172,414 (See Note 11). As part of the financing, the Company issued 600,000 common shares to the debenture holders at a price of $0.02 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 15, 2011, the Company completed a financing of secured Series E3 debentures in the aggregate principal amount of $155,172 (See Note 11). As part of the financing, the Company issued 540,000 common shares to the debenture holders at a price of $0.02 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 22, 2011, the Company completed the acquisition of Adagio (See Note 7). As part of the acquisition, the Company issued 26,000,000 common shares at a price of $0.02 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 28, 2011, the Company completed a financing of secured Series E4 debentures in the aggregate principal amount of $229,885 (See Note 11). As part of the financing, the Company issued 800,000 common shares to the debenture holders at a price of $0.02 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

(in Canadian dollars)

12. SHARE CAPITAL (continued)

iii) Equity Reserve – Warrants

The number of warrants outstanding as at January 1, 2010, December 31, 2010 and December 31, 2011 and changes during the years ended December 31, 2011 and 2010 is presented below:

	Number of Warrants	Estimated Grant Date Fair Value	Weighted Average Price/Share
	#	$	$
Balance, January 1, 2010	13,338,350	294,444	0.153
Expired February 8, 2010	(1,175,000)	(58,261)	0.220
Balance, December 31, 2010	12,163,350	236,183	0.150
Issued February 2, 2011 (Note 12(ii))	5,800,000	49,997	0.100
Expired February 26, 2011	(1,935,000)	(54,809)	0.150
Expired August 6, 2011	(8,260,450)	(146,508)	0.145
Expired August 31, 2011	(1,967,900)	(34,866)	0.145
Balance, December 31, 2011	5,800,000	49,997	0.100

Warrants outstanding and exercisable as at December 31, 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	49,997	February 2, 2013

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

(in Canadian dollars)

12. 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 Exchange) of the shares at the time of grant, subject to all applicable regulatory requirements.

The number of stock options outstanding as at January 1, 2010, December 31, 2010 and December 31, 2011 and changes during the years ended December 31, 2011 and 2010 is 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	(741,667)	(2,225,000)	0.286
Options outstanding as at December 31, 2011	7,668,333	7,835,000	0.144

On March 3, 2010, the Company granted stock options to acquire 425,000 common shares. The stock options were granted to an officer, a director and an employee of the Company at an exercise price of $0.10 per share for a term of 5 years from date of grant. The stock options vest as to 1/3 on September 3, 2010, 1/3 on March 3, 2011 and 1/3 on September 3, 2011.

12. SHARE CAPITAL (continued)

On August 12, 2010, the Company granted stock options to acquire 1,300,000 common shares. The stock options were granted to officers, directors and employees of the Company at an exercise price of $0.10 per share for a term of 5 years from date of grant. The stock options granted to the directors vest as to 1/3 on August 12, 2011, 1/3 on August 12, 2012 and 1/3 on August 12, 2013. The remaining stock options vest as to 1/3 on February 2, 2011, 1/3 on August 12, 2011 and 1/3 on February 12, 2012.

On November 10, 2010, the Company granted stock options to acquire 200,000 common shares. The stock options were granted to directors of the Company at an exercise price of $0.10 per share for a term of 5 years from date of grant. The stock options granted to the directors vest as to 1/3 on November 10, 2011, 1/3 on November 10, 2012 and 1/3 on November 10, 2013.

On March 4, 2011, the Company granted stock options to acquire 750,000 common shares. The stock options were granted to officers and a director of the Company at an exercise price of $0.10 per share for a term of 5 years from date of grant. The stock options vest as to 1/3 on September 2, 2011, 1/3 on March 4, 2012 and 1/3 on September 2, 2012.

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. The stock options vested 100% on date of grant.

Reserve – Share based payments (continued)

The weighted average grant date fair value of the stock options issued during the year ended December 31, 2011 is $0.03 (December 31, 2010: $0.04). The exercise prices of stock options granted during the year 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 year ended December 31, 2011 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0% (2010: 0%), expected volatility of 127% - 128% (2010: 122% - 127%), risk free rates of return of 1.23% - 2.43% (2010: 2.00% - 2.37%) and an expiry period of 5 years (2010: 5 years).

(in Canadian dollars)

12. SHARE CAPITAL (continued)

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

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price	Expiry Date
#	#	$/share	
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
7,668,333	7,835,000		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2011 is 6,334,998. The weighted average exercise price of these common shares as at December 31, 2011 is $0.157.

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at December 31, 2011 is 2.27 years and 2.55 years, respectively.

(in Canadian dollars)

12. SHARE CAPITAL (continued)

v) Escrow 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 December 31, 2011, 3,460,891of the 72-month release shares are still subject to escrow.

On December 22, 2011, Cynapsus completed the acquisition of Adagio. Immediately following the acquisition, 24,061,619 common shares of the Company issued to Adagio shareholders were subject to escrow. Corporate escrowed shares are to be released upon achievement of capital raising milestones until specified capital raising thresholds totalling $8,000,000 have been achieved. Individual escrowed shares are to be released on each of the 12-month anniversaries of the closing of the Transaction (See Note 7).

13. 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 years ended December 31, 2011 and 2010 are included in operating, general and administrative expenses ("OG&A"), research and development expenses ("R&D"), and intangible assets as follows:

	2011	2010
Management fees to CEO (OG&A)	$ 144,000	$ 142,000
Salaries to other key management (OG&A)	245,000	245,000
Director fees (OG&A)	53,500	43,350
Special Committee fees (Intangible assets)	62,963	-
Consulting services (OG&A)	-	28,000
Consulting services (R&D)	179,695	8,500
	$ 685,158	$ 466,850

At December 31, 2011, included in accounts payable and accrued liabilities is $439,877 (December 31, 2010: $197,440; January 1, 2010: $98,560) due to officers and directors of the Company (See Note 10). 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.

The value of share-based payments issued to related parties during the year ended December 31, 2011 is $34,000 (December 31, 2010: $57,750).

(in Canadian dollars)

13. RELATED PARTY DISCLOSURES (Continued)

As at December 31, 2011, $84,472 (December 31, 2010: $43,601; January 1, 2010: $Nil) of the interest-bearing debentures are due to a director of the Company.

On July 19, 2010, the Company completed a financing of secured debentures in the aggregate amount of $520,000 (See Note 11). Included in this total, was a $52,875 debenture from a director who also received 184,000 common shares at a price of $0.05 per share.

On September 29, 2011, the Company completed a financing of secured debentures in the aggregate amount of $488,503 (See Note 11). Included in this total, was a $28,735 debenture from a director who also received 100,000 common shares at a price of $0.03 per share.

See Note 7.

See Note 15.

14. SUPPLEMENTARY CASH FLOW INFORMATION

	2011	2010
Income taxes paid	$ -	$ -
Interest paid	-	1,774
Change in accounts payable related to acquisition of intangible assets	137,988	-
Value of shares for acquisition of intangible asset	520,000	-

15. COMMITMENTS AND 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, are approximately $305,000 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 in equity 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 in equity after November 15, 2009 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 consolidated financial statements.

During the years ended December 31, 2011 and December 31, 2010, the Company awarded bonuses of $189,350 and $179,052, respectively, to certain officers and employees of the Company, with payment being contingent upon the Company raising a minimum of $3 million in equity. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

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 8% 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 5% 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.

See Note 7, Acquisition of Adagio Pharmaceuticals Ltd., Terms of Transaction for future commitments.

See Note 11, Debentures Payable.

(in Canadian dollars)

16. INCOME TAXES

a) Provision for income taxes:

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 29% (2010 – 31%) are as follows:

	December 31, 2011	December 31, 2010
Loss before income taxes	$ (2,847,247)	$ (1,439,782)
Expected income tax recovery	$ (826,000)	$ (446,000)
Adjustments to benefit resulting from:		
Change in income tax rates	114,000	86,000
Stock option compensation	22,000	37,000
Other	1,000	195,000
	$ (689,000)	$ (128,000)
Unrecognized tax benefits	689,000	128,000
	$ -	$ -

b) The effect of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010
Deferred income tax assets:		
Share issuance costs	$ 92,000	$ 66,000
Equipment	4,000	3,000
Non-capital loss carry forwards	3,300,000	2,638,000
	$ 3,396,000	$ 2,707,000
Unrecognized deferred tax assets	(3,396,000)	(2,707,000)
	$ -	$ -

c) The Company has approximately $13,163,000 of non-capital losses as at December 31, 2011, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Available To	Amount ($)
2014	501,000
2015	1,596,000
2026	2,102,000
2027	2,048,000
2028	1,508,000
2029	1,524,000
2030	1,177,000
2031	2,742,000
	13,198,000

17. SUBSEQUENT EVENTS

On March 9, 2012, the Company completed a financing of secured Series E5 debentures in the aggregate principal amount of $1,075,865. As part of the financing, the Company issued 3,744,000 common shares to the debenture holders at a price of $0.05 per share. The share price was estimated based on the trading price of a common share on the date of issuance. A director of the Company has subscribed in the principal amount of $28,735. In addition, the Series A-E debenture due dates (See Note 11) were amended to February 28, 2013.

On March 9, 2012, following the close of the Series E5 debentures, the Company released from escrow an additional 1,938,381 common shares to Adagio shareholders, based on corporate and contractual escrow agreements. Following the release, 22,123,238 of the 26,000,000 common shares remain in escrow. Of the 1,938,381 common shares released from escrow, 437,206 common shares are to be released to the President and Chief Executive Officer of Cynapsus. All released common shares are subject to a 4-month hold period.

On March 22, 2012, 650,000 options held by a former board member expired unexercised.

On March 23, 2012, the Company released from escrow the final 3,460,891of the 72-month release shares related to the Lonsdale Public Ventures Amalgamation.

On March 23, 2012, the Company granted stock options to acquire 4,675,000 common shares. The stock options were granted to a directors, officers, employees and consultants at an exercise price of $0.10 per share for a term of 5 years from date of grant.