CYNAPSUS THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A") OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2011

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board requires publicly accountable enterprises such as us to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the consolidated financial statements of Cynapsus Therapeutics Inc. (the "Company", "Cynapsus") for the year ended December 31, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

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

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

For further information, please refer to the Company's Consolidated Financial Statements and Notes for the year ended December 31, 2011.

Some of the statements contained in this Management's Discussion and Analysis of Operating Results and Financial Condition constitute forward-looking statements. These statements relate to future events or to Cynapsus' future financial performance and involve known and unknown risks, uncertainties and other factors that may cause Cynapsus' actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Additional information relating to the Company, including its audited Consolidated Financial Statements and other statutory reports, are available at the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The discussion and analysis within this MD&A are as of March 23, 2012. All amounts are expressed in Canadian (CDN) dollars, which is the functional currency of the Company, unless otherwise indicated.

Overview

Cynapsus is a specialty pharmaceutical company developing an improved dosing formulation of an approved drug used to treat the symptoms of Parkinson's disease. Parkinson's disease is a chronic and progressive neurodegenerative disease that impacts motor activity, and its prevalence is increasing with the aging of the population. It is estimated that between 25 and 50 percent of patients experience "off episodes" in which they have impaired movement or speaking capabilities. Current medications control only the disease's symptoms, and most drugs become less effective over time as the disease progresses.

Cynapsus' lead drug candidate, APL-130277, is an easy-to-administer, fast-acting and oral reformulation of an approved drug, apomorphine, used to rescue patients from off episodes.

Cynapsus is focused on rapidly maximizing the value of APL-130277 by completing pivotal studies in advance of a New Drug Application expected to be submitted in 2013 or 2014. The Company anticipates out-licensing to an appropriate pharmaceutical partner before such an application is submitted.

APL 130277 Background

In the United States alone, approximately 4 million new Americans will turn 65 each year for the next 19 years. This demographic is the primary age group for development of neurodegenerative diseases such as Alzheimer's and Parkinson's disease. It is estimated that there are approximately 6 million Parkinson's disease patients in the world today.

In the opinion of Management, discovery of disease modifying therapies for chronic brain conditions such as Parkinson's disease and Alzheimer's disease based on early diagnosis, genetic manipulation, and/or cell therapy are more than 10 to 15 years away. Further research will be required to make such therapies practical, economical, and broadly available. As a result, effective and economical therapies that relieve symptoms, such as APL 130277, will remain a mainstay in treating patients and will address substantial unmet medical needs.

For patients with Parkinson's disease, Apomorphine is a fast-acting, effective dopamine agonist to treat off episodes, i.e. periods when chronic Parkinson's patients experience impaired movement or speaking capabilities. Apomorphine is currently approved by the US Food and Drug Administration (FDA) and the European Medicines Agency (EMEA), but is currently only available by subcutaneous injection.

APL-130277 has the potential to be the first marketed convenient oral (sublingual) formulation of apomorphine, a drug proven to work even in the most severe cases of Parkinson's disease in which other drugs have diminished effect. APL-130277 is being developed as a one to three times a day rescue therapy, to be used adjunctive to levodopa combination therapies.

As a drug development project, APL-130277 has a lower risk profile than a New Chemical Entity given that the regulatory path is shorter and well-defined, the cost to an approvable New Drug Application (NDA) is relatively low (estimated at approximately $15 million), and the active compound has a well known efficacy and safety profile. If APL 130277 demonstrates "bioequivalence" in its abbreviated 2 year clinical program, management believes that the Company, or a pharmaceutical partner, would be allowed under the US FDA regulations, to submit a New Drug Approval request, based on the 505b(2) criteria. These criteria would recognize the subcutaneous injection (NDA 21-264) as the reference listed drug to which APL 130277 would draw safety and efficacy data and would be compared by the US FDA for its pharmacokinetic parameters.

REVIEW OF OPERATING RESULTS:

Operating, General and Administrative ("OG&A) Expense

For the year ended December 31,

	2011 ($)	2010 ($)	$ change in 2011	% change in 2011
Operating, general and administrative	1,236,297	1,121,766	114,531	10.2

The increase in OG&A expense in the year ended December 31, 2011 compared to December 31, 2010 is primarily attributed to increases in accounting fees related to IFRS transition, and the engagement of a US-based public relations firm. It should be noted that expenses related to the acquisition of Adagio Pharmaceuticals Ltd. ("Adagio") were capitalized to intangible assets, including legal fees, fees to obtain a fairness opinion from an independent US FINRA/SIPC registered financial advisor, and special committee board fees.

Research and Development ("R&D") Expense

For the year ended December 31,

	2011 ($)	2010 ($)	$ change in 2011	% change in 2011
Research and development	907,483	454,027	456,357	100.5

The increase in R&D expense for the year ended December 31, 2011 compared to December 31, 2010 is primarily due to increased spending on formulation development and animal testing of APL 130277, activities related to the Pre-IND meeting with the US Food and Drug Administration held on April 20, 2011, and costs associated with the human proof-of-concept clinical trial that was completed in December 2011.

Other Operating Expenses

For the year ended December 31,

	2011 ($)	2010 ($)	$ change in 2011	% change in 2011
Other operating expenses				
Share-based payments	87,348	153,081	(65,733)	(42.9)
Amortization of intangible assets	11,110	11,111	(1)	0.0
Depreciation of equipment	2,762	3,815	(1,053)	(27.6)
Foreign exchange loss	23,094	(9,656)	32,750	339.2
(Recovery) on scientific research	(51,467)	(135,780)	84,313	62.1
Forgiveness of debt	-	(230,688)	230,668	100.0
Total other operating expenses	72,847	(208,117)	280,964	135.0
Finance costs	641,189	74,506	566,683	760.6

The increase in other operating expenses in the year ended December 31, 2011 compared to December 31, 2010 is primarily attributed to a lower recovery on scientific research in 2011 versus 2010 and the significant one time forgiveness of debt that occurred in 2010, which offset the decrease in share-based payments in 2011 compared to 2010.

The significant increase in finance costs in the year ended December 31, 2011 compared to December 31, 2010 is primarily attributed to the accretion and interest expenses associated with the new Series C, Series D, and Series E debentures.

Loss Per Share

For the year ended December 31,

	2011 ($)	2010 ($)	$ change in 2011	% change in 2011
Loss	2,847,247	1,442,911	1,369,381	94.9
Basic and diluted loss per share	0.03	0.02	0.01	50.0

The increase in the loss per share for the year ended December 31, 2011 compared to December 31, 2010 is primarily attributed to increases in accounting fees related to IFRS transition, as well as increased spending on formulation development and animal testing of APL 130277, activities related to the Pre-IND meeting with the US Food and Drug Administration held on April 20, 2011, and costs associated with the human proof-of-concept clinical trial that was completed in December 2011.

SUMMARY OF ANNUAL RESULTS:

Annual Statements of Income:

	2011 ($)	2010 ($)	2009 ($)
Total assets	1,201,646	389,069	761,349
Revenues	-	-	-
Interest income	-	1,000	13,000
Operating, general and administrative	1,236,000	1,122,000	1,139,000
Research and development	907,000	454,000	616,000
Other	704,000	(133,000)	(4,000)
Net loss	2,847,000	1,443,000	1,751,000
Loss per share (basic and diluted)	0.03	0.02	0.02

For the year ended December 31, 2011 (in accordance with IFRS)

	Q1 ($)	Q2 ($)	Q3 ($)	Q4 ($)	2011 Total ($)
Revenues	-	-	-	-	-
Interest income	-	-	-	-	-
Operating, general and administrative	345,000	510,000	212,000	169,000	1,236,000
Research and development	147,000	190,000	51,000	519,000	907,000
Other	112,000	111,000	213,000	268,000	704,000
Net loss	604,000	811,000	476,000	956,000	2,847,000
Loss per share (basic and diluted)	0.01	0.01	0.00	0.01	0.03

For the year ended December 31, 2010 (in accordance with IFRS)

	Q1 ($)	Q2 ($)	Q3 ($)	Q4 ($)	2011 Total ($)
Revenues	-	-	-	-	-
Interest Income	1,000	-	-	-	1,000
Operating, general and administrative	301,000	316,000	268,000	237,000	1,122,000
Research and development	85,000	64,000	168,000	137,000	454,000
Other	50,000	50,000	(35,000)	(198,000)	(133,000)
Net loss	436,000	430,000	402,000	176,000	1,443,000
Loss per share (basic and diluted)	0.00	0.00	0.00	0.00	0.02

LIQUIDITY AND CAPITAL RESOURCES

The cash balance at December 31, 2011 was $294,812, compared to $193,484 at December 31, 2010. Since inception, cash requirements have been financed primarily through issuances of securities. In the past year, the Company has also raised capital through the issuance of secured debentures. Cynapsus anticipates future funding requirements to be met primarily through additional securities issuances, debentures, research and development tax credits, other potential sources of government funding, or a combination of the above.

The balance of accounts payable and accrued liabilities was $1,389,004 at December 31, 2011, compared to $835,035 at December 31, 2010.

The balance of debentures payable was $2,646,446 at December 31, 2011, compared to $668,826 at December 31, 2010.

The development of pharmaceutical products is a process that requires significant investment. Cynapsus expects to incur losses from operations for the foreseeable future. R&D expenses are expected to increase, including the expenses related to additions of personnel and clinical trials. General and administrative expenses are expected to increase in the future as the Company adds infrastructure and incurs additional costs.

Future cash requirements will depend on a number of factors, including the continued progress of R&D for the APL 130277 drug candidate, the timing and outcome of clinical trials and regulatory approvals, the ability to out-license drug candidates to partners, the timing of payments received or made under licensing or other agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the status of competitive products and the success of the Company in developing and maintaining markets for its products.

Operating Activities

For the year ended December 31, 2011, operating activities used cash of $1,720,200 compared to $1,025,713 used in operations for the year ended December 31, 2010. Cash used in operating activities reflects the net loss of $2,847,247 for the year ended December 31, 2011, adjusted for non-cash items including amortization of equipment and intangible assets, share-based payments, accretion and interest expenses for debentures, and changes in non-cash working capital. The increase in cash outflow in the year ended December 31, 2011 is primarily due to expenses related to IFRS transition and the increase in research and development spending.

Investing Activities

For the year ended December 31, 2011, investing activities were $44,999 compared to $nil for the year ended December 31, 2010. The amount for the year ended December 31, 2011 was paid expenses related to the acquisition of Adagio and the associated intellectual property.

Financing Activities

For the year ended December 31, 2011, net financing activities were $1,866,527 compared to $736,000 for the year ended December 31, 2010.

Shareholders' deficiency increased to $2,833,804 at December 31, 2011 from $1,114,792 at December 31, 2010, as the net proceeds from the private placement financing in February, the value of the debenture bonus shares issued in January, May, September, November and December and the share-based payments issued in the period, were insufficient to offset the net loss for the year ended December 31, 2011.

Share Capital

The Company has authorized an unlimited number of common shares with no par value.

A summary of common shares, stock options and common share purchase warrants issued is as follows:

	as at March 23, 2012			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common shares	135,487,219	-	-	10,138,399
Stock options	-	11,783,333	-	-
Common share purchase warrants	-	-	5,800,000	49,997
Total	135,487,219	11,783,333	5,800,000	10,188,396

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

	as at March 23, 2012			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common shares	135,487,219	-	-	135,487,219
Stock options	-	11,860,000	-	11,860,000
Common share purchase warrants	-	-	5,800,000	5,800,000
Total	135,487,219	11,860,000	5,800,000	153,147,219

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Changes in Accounting Policies

International Financial Reporting Standards ('IFRS")

The Company has adopted International Financial Reporting Standards ("IFRS") for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The accounting policies have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS Balance Sheet at January 1, 2010 (the Company's date of transition).

IFRS 1 "First-time Adoption of International Financial Reporting Standards" generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company has elected under IFRS 1 to 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 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:

Share-based payments

On transition to IFRS the Company elected to change its accounting policy for the treatment of share-based payments, whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

Warrants

On transition to IFRS the Company elected to change its accounting policy for the treatment of warrants whereby amounts recorded for expired warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to transfer such amounts to contributed surplus.

Revenue and Expenses

Revenue has historically been generated from interest received from short term deposits. Cynapsus expects longer-term revenues and profits to be generated from the commercialization of pharmaceutical products. These revenues are considered long-term as a result of the long lead times required to complete clinical trials and to receive regulatory approvals.

Research and development expenses consist primarily of vendor, personnel and related costs associated with the formulation development and clinical testing of the Company’s pharmaceutical product candidates.

Operating, general and administration costs consist of personnel and related costs associated with management, administration and finance functions, as well as professional fees, office rent, insurance and other corporate expenses.

Private Placement

On February 2, 2011, the Company, as part of a private placement, issued 5,800,000 units at a price of $0.05 per unit raising gross proceeds of $290,000. Each unit consists 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.

Debenture Financings and Share Issuances

On July 19, 2010, the Company completed a financing of secured Series A1 debentures in the aggregate principal amount of $520,000. 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. 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.

On November 24, 2010, the Company completed a financing of a secured Series B debenture in the aggregate principal amount of $100,000. 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. 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 May 25, 2011, the Company completed a financing of secured Series D debentures in the aggregate principal amount of $500,000. 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. 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. David Hill, a Director of the Company, subscribed in the principal amount of $28,735.

On November 4, 2011, the Company completed a financing of secured Series E2 debentures in the aggregate principal amount of $172,414. 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. 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. 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. 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.

Expiry of Warrants

On February 8, 2010, warrants to acquire 1,175,000 common shares of the Company expired unexercised.

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

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

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

Expiry of Stock Options

On June 25, 2010, stock options to acquire 200,000 common shares of the Company at exercise prices of $0.20 per share expired unexercised.

On June 30, 2010, stock options to acquire 200,000 common shares of the Company at exercise prices of $0.20 per share expired unexercised.

On July 28, 2010, stock options to acquire 40,829 common shares of the Company, previously granted to a director, expired unexercised.

On August 31, 2010, stock options to acquire 200,000 common shares of the Company, previously granted to directors and a former director, expired unexercised.

On December 3, 2010, stock options to acquire 150,000 common shares of the Company, previously granted to a director and a former director, expired unexercised.

On December 31, 2010, stock options to acquire 125,000 common shares of the Company at exercise prices of $0.283 per share expired unexercised.

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

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

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

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

On December 31, 2011, 116,667 stock options exercisable into 350,000 common shares of the Company at exercise prices of $0.0283 per share expired unexercised.

Grant of Stock Options

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. Of the total, 150,000 stock options were granted to Andrew Williams (COO/CFO) and 125,000 to Ronald Hosking (Director).

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. Of the total, 100,000 stock options were granted to each of the following directors: Julia Levy, Ronald Hosking, Alan Ryley, Rochelle Stenzler and Alan Torrie. Of the total, 200,000 stock options were granted to each of Anthony Giovinazzo (President & CEO) and Andrew Williams (COO/CFO), 150,000 to Nathan Bryson (CSO).

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. Of the total, 50,000 stock options were granted to each of the following directors: Alan Ryley, Rochelle Stenzler and Alan Torrie

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

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

Board of Directors

On March 22, 2011, Rochelle Stenzler, the current Chair of the Corporate Governance and Compensation Committee, was elected to the position of Chair of the Board. Ms. Stenzler replaced Mr. David Pattenden, who resigned as a director and Chairman for personal reasons. As a result, the 650,000 stock options previously granted to David Pattenden became fully vested and expire on March 22, 2012.

On May 31, 2011, Donald Ziraldo ceased to be a Director as he was not re-nominated at the Annual and Special Meeting of Shareholders held on May 31, 2011. As a result, the 550,000 stock options previously granted became fully vested and expire on May 31, 2012.

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. As part of the Series E5 financing, the Series A-E debentures due dates were amended to February 28, 2013. Of the total, David Hill (Director) has subscribed in the principal amount of $28,735.

On March 15, 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. Of the total, 950,000 to each Andrew Williams (COO/CFO) and Nathan Bryson (CSO), 700,000 to Albert Agro (CMO), 400,000 to Rochelle Stenzler (Director), and 200,000 to each of Ron Hosking (Director), Julia Levy (Director), Alan Ryley (Director) and Alan Torrie (Director).

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.

Related Party Transactions

At December 31, 2011, included in accounts payable and accrued liabilities is $439,877 (December 31, 2010 - $197,440) due to officers and directors of the Company. The increase in amounts owing to officers and directors for the year ended December 31, 2011, is primarily due to increased board and committee fees related to the proposed Adagio transaction, as well as a significant increase in consulting fees owed to the Chief Medical Officer, Albert Agro.

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).

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, David Hill.

On July 19, 2010, the Company completed a financing of secured debentures in the aggregate amount of $520,000. Included in this total, was a $52,875 debenture from a director who was issued 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. Included in this total, was a $28,735 debenture from a director, David Hill, who was issued 100,000 common shares at a price of $0.03 per share.

Commitments and Contingencies

The Company is party to certain management contracts for its executive officers. Minimum management contract termination commitments remaining under the agreements, for termination without cause, 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.

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.

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;

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 totaling $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.

RISKS AND UNCERTAINTIES

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to Cynapsus or that Cynapsus believes to be immaterial may also adversely affect Cynapsus' business.

Availability of Additional Financing: The Company incurred a net loss of $2,847,247 for the year ended December 31, 2011 and expects to incur losses from continuing operations for the foreseeable future. As at December 31, 2011, the Company had cash and cash equivalents of $294,812. Subsequent to the year end, on March 9, 2012, the Company completed a financing of secured Series E5 debentures for net proceeds of $936,000. The Company does not expect these funds will be sufficient to fund current product development and operating costs beyond the next six months. In addition, the Company currently has approximately $3,700,000 in secured debentures due before February 28, 2013. If the Company is unable to repay the debentures by their due dates, the terms of the agreements will need to be renegotiated.

The Company is currently seeking to raise additional capital through the issuance of further debentures and/or shares and warrants. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company, particularly given the current challenging economic environment. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

To date, the Company has financed its business primarily through equity issuances tied to the achievement of key milestones. The Company has a strong track record of raising capital and since August 2004 has been successful in raising over $10 million from the completion of ten private placement financings, a short form prospectus offering and several debenture financings. In December 2011, the Company announced the acquisition of Adagio and the results of a large survey of neurologists and movement disorder specialists in the United States, Europe, Japan, China and select countries in the Rest of the World. In addition, in January 2012, the Company announced the results of the first human proof-of-concept clinical trial. These three announcements are expected to assist with current capital raising efforts.

Product Development: The Company carries on business in the pharmaceutical drug development industry. The development of pharmaceutical products is a process that requires large investments and can take years to complete. This multi-year process involves a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Many unforeseen efficacy and toxicity issues may arise throughout the process. While the Company will attempt to develop safe and effective drug products, it is nonetheless an early stage Company with products which are still undergoing development. Animal tests provide preliminary safety and efficacy data but can

never duplicate the behaviour of the product in continuous use in humans. As such, many efficacy and toxicity issues that arise in humans will not be known until after the human clinical testing begins. Negative effects seen in these trials may require the Company to make significant new investments in technology or withdraw from the specific drug development project altogether.

Regulatory Approval Process: A variety of laws and regulations govern the development, marketing and use of drugs. The Company's products will require governmental approvals, none of which has yet been obtained. Pre-clinical activities and clinical trials of new drugs are subject to the rigorous testing and approval processes of the US Food and Drug Administration, Health Canada and other regulatory agencies. The approval of new drugs is expensive and can be a multi-year process in which success is predicated on demonstrating that the candidate drug is safe and effective. The Company cannot offer any guarantees that all or any of its products will meet all regulatory requirements within a reasonable period of time, if at all. Data obtained from pre-clinical or clinical testing is susceptible to varying interpretations which can delay, limit, or prevent, regulatory approval. The pharmaceutical products being developed by the Company involve molecules which are controlled substances and may delay the approval process. Any failure or delay in obtaining regulatory approvals could adversely affect the market for any products the Company develops and therefore its business, results of operations, financial condition and cash flows.

Patent Applications: The Company's success will depend, in part, on its ability to obtain patents, protect trade secrets and operate without infringing upon the exclusive rights of third parties. Although the Company intends to file patent applications in Canada and possibly other jurisdictions, there is no guarantee that it will obtain such patents or that it will develop patentable products. Moreover, there is no proof that any patent that is granted to the Company will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to the Company's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Company's products, that they will not imitate any of its products or that, if the Company obtains its patents, its competitors will not manufacture products designed to circumvent the exclusive patent rights granted to it.

Potential Infringement on Third Party Patents: If a competitor were to assert that the Company’s products infringe on their patent or other intellectual property rights, substantial litigation costs could be incurred and the Company may be required to pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume significant financial resources, but would also divert management's time and attention. Such claims could also cause customers or potential customers to purchase competitors' products or defer or limit their purchase or use of the affected products until resolution of the claim. If any of the Company’s products are found to violate third-party intellectual property rights, it may have to re-engineer one or more of its products, or may have to obtain licenses from third parties to continue offering its products without substantial re-engineering. The Company’s efforts to re-engineer or obtain licenses could require significant expenditures and may not be successful.

Dependence on Third Parties: Due to the complexity of the process of developing therapeutics, the Company's business will depend on arrangements with pharmaceutical companies, corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, technology rights, manufacturing, marketing and commercialization of its products. The Company's license agreements could obligate it to diligently bring potential products to market, make milestone payments and royalties that, in some instances, could be substantial, and incur the costs of filing and prosecuting patent applications. There can be no assurance that the Company will be able to establish or maintain collaborations that are important to its business on favorable terms, or at all. A number of risks arise from the Company's dependence on collaborative agreements with third parties. Product development and commercialization efforts could be adversely affected if any collaborative partner terminates or suspends its agreement with the Company, causes delays, fails to on a timely basis develop or manufacture in adequate quantities a substance needed in order to conduct clinical trials, fails to adequately perform clinical trials, decides not to develop, manufacture or commercialize a product to which it has rights, or otherwise fails to meet its contractual obligations. The Company's collaborative partners could pursue other technologies or develop alternative products that could compete with the products the Company is developing. Any disruption with any partner, licensee or licensor could adversely affect the Company's product development efforts and therefore its business, results of operations, financial condition and cash flows.

Dependency on Management and Key Consultants and Employees: The Company's operations are dependent on the abilities, experience and efforts of its management, consultants, advisors and other key employees. Should any of these persons be unable or unwilling to continue in their employment or arrangement with the Company, this could have a material adverse effect on the Company's business, financial condition and results of its operations. The Company does not have key man insurance on the lives of these personnel. In addition, substantial competition exists for qualified technicians and personnel in the pharmaceutical drug development industry, and the Company may be unable to attract or retain highly qualified personnel in the future to meet its needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur. Any failure to attract qualified personnel may materially adversely affect the business, financial condition or results of operations of the Company.

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

Volatility of Trading Market for Cynapsus' Common Shares: The volatility of Cynapsus' share price may affect the trading market for Cynapsus' common shares. There can be no assurance that an active trading market for the common shares will be sustained. Our share price could fluctuate significantly in the future for a number of reasons, including, among others, future announcements concerning Cynapsus, quarterly variations in operating results, the introduction of competitive products, reports of results of clinical trials, regulatory developments, and intellectual property developments.

In addition, stock markets, in general, and the market for shares of biotechnology and life science companies, in particular, have experienced extreme price and volume fluctuations in recent years that may be unrelated to the operating performance or prospects of the affected companies. These broad market fluctuations may affect the market price of Cynapsus' common shares.

Additional Information:

For additional information with respect to certain of these and other factors, please refer to documents filed on the System for Electronic Document Analysis and Retrieval at www.sedar.com.

Contact Information:

Anthony Giovinazzo
President and Chief Executive Officer
W: 416-703-2449 (Ext. 225)
ajg@cynapsus.ca

Andrew Williams
Chief Operating Officer and Chief Financial Officer
W: 416-703-2449 (Ext. 253)
awilliams@cynapsus.ca