CYNAPSUS THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A") OF OPERATING RESULTS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2012

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Cynapsus Therapeutics Inc. ("Cynapsus", or the "Company") for the three months ended March 31, 2012 and should be read in conjunction with the Company's Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2012 as well as the Company's Audited Annual Consolidated Financial Statements and related Notes and Management's Discussion and Analysis for the twelve months ended December 31, 2011. The financial statements and related notes of Cynapsus have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at www.sedar.com.

This MD&A reports our activities through May 30, 2012 unless otherwise indicated. All amounts are expressed in Canadian (CDN) dollars, which is the functional currency of the Company, unless otherwise indicated.

Cautionary Statement Regarding Forward-Looking Information

Some of the statements contained in this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cynapsus to be materially different from those expressed or implied by such forward-looking statements, including but not limited to those risks and uncertainties relating to Cynapsus' business disclosed under the heading "Risk and Uncertainties" in "Management's Discussion and Analysis of Operating Results and Financial Condition" for the year ended December 31, 2011, and its other filings with the various Canadian securities regulators which are available online at www.sedar.com. Although Cynapsus has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Cynapsus does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

Company Overview and Outlook

Cynapsus is a specialty pharmaceutical company developing an improved dosing formulation of an approved drug used to treat the symptoms of Parkinson's disease. Over one million people in the United States and an estimated 5 million people globally suffer from Parkinson's. Parkinson's 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 early 2014. Cynapsus anticipates out-licensing to an appropriate pharmaceutical partner before such an application is submitted.

Cynapsus' focus in 2012, subject to the availability of capital, is to deliver several critical new building blocks of value and de-risking of the APL-130277 asset, including:

1. **Research Coverage:** Obtain biotech analyst initiation of research coverage, which provides further independent opinion and view of the strengths, risks and commercial potential of APL-130277. In February 2012, the Company announced that Loewen, Ondaatje, McCutcheon Limited ("LOM") initiated analyst coverage of the Company. LOM is independent and does not have any financial relationship with the Company.

2. **Clinical Advisory Board:** Add an additional expert to our Clinical Advisory Board ("CAB") who has extensive experience in the clinical management of Parkinson's patients. In April 2012, the Company announced that it has appointed Dr. Abraham Lieberman to the CAB. Dr. Lieberman is the current Director of the Muhammad Ali Parkinson Center and Movement Disorder Clinic of the Barrow Neurological Institute at St. Joseph's Hospital and Medical Center.

3. **Board of Directors:** Strengthen our Board of Directors with the addition new directors. In May 2012, the Company announced that Dr. Perry Molinoff, Dr. Thomas Picone, and Anthony Giovinazzo, were named as candidates to join its Board of Directors at the May 30, 2012 Annual and Special Meeting of Shareholders. Mr. Giovinazzo and Dr. Molinoff were nominated and elected to the Board at the meeting, along with Mr. Ronald Hosking, Dr. Julia Levy, Dr. Alan Ryley, Ms. Rochelle Stenzler and Mr. Alan Torrie. Dr. Picone was not nominated for personal reasons, however his candidacy is still in process and he may join the Board of Directors in the next three months, subject to Board and Exchange approval.

4. **Investor Relations:** Engage a United States focused investor awareness and relations firm. In May 2012, the Company announced that it has retained JSDC, Inc. ("JSDC") to provide investor relations services for the Company. JSDC will undertake to use its well-established relationships with the institutional and retail investment communities to assist the Company in fostering productive, continuing relationships with analysts, brokers, potential investors, and other financial professionals, as well as to manage information flow to the Company's current shareholders.

5. **Phase 1 Pilot Study:** Complete a second Phase 1 healthy human volunteer pilot study to provide additional insights related to a two dose comparison, as well as some minor changes to the prototype composition. This pilot study commenced in May 2012, with results expected to be announced in July or August 2012.

6. **New Drug Application:** File a US Initial New Drug (IND) application, to allow the Company to complete the Bioequivalence Study of APL-130277 in the United States.

7. **Bioequivalence Study:** Complete the Bioequivalence Study of APL-130277, which will be a substantial de-risking event for the Company and the project.

8. **US Exchange Listing:** Seek to qualify for and submit an application to obtain a listing on the OTCQX stock exchange in the United States. This will allow United States investors to more easily trade shares of the Company.

9. **Equity Financings:** Close one or more equity capital transactions, resulting in a cumulative minimum addition of $3 million of new cash.

Parkinson's Disease and APL-130277

Over one million people in the United States and an estimated 5 million people globally suffer from Parkinson's. 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.

In the opinion of Senior 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 three months ended March 31,

	2012 ($)	2011 ($)	$ change in 2012	% change in 2012
Operating, general and administrative	394,624	345,360	49,264	14.3

The increase in OG&A expense in the three months ended March 31, 2012 compared to March 31, 2011 is primarily attributed to Board approved increases in senior officers' base salaries starting January 1, 2012. It should be noted that the changes in base salaries for each of the officers' are being accrued, not paid, until an equity financing of $3 million or more is completed. Other notable OG&A expenses in the three months ended March 31, 2012 include increased spending on investor relations activities, which offset one-time IFRS transition expenses and Board and professional fees related to the acquisition of Adagio Pharmaceuticals Ltd. that occurred in Q1 2011.

Research and Development ("R&D") Expense

For the three months ended March 31,

	2012 ($)	2011 ($)	$ change in 2012	% change in 2012
Research and development	121,801	146,360	(24,559)	(16.8)

The decrease in R&D expense for the three months ended March 31, 2012 compared to March 31, 2011 is primarily due to decreased spending on consulting fees related to formulation and clinical development planning for APL 130277, which offset and were greater than the increase in legal fees for intellectual property filings and expenses related to the first human clinical study of APL-130277 that was completed in Q1 2012.

Other Operating Expenses

For the three months ended March 31,

	2012 ($)	2011 ($)	$ change in 2012	% change in 2012
Other operating expenses				
Share-based payments	133,911	25,090	108,821	433.7
Amortization of intangible assets	14,746	2,777	11,969	431.0
Depreciation of equipment	502	691	(189)	(27.4)
Foreign exchange (gain)	(8,243)	(4,711)	(3,532)	75.0
(Recovery) on scientific research	(30,000)	-	(30,000)	-
	110,916	23,847	87,069	365.1

The increase in other operating expenses in the three months ended March 31, 2012 compared to March 31, 2011 is primarily attributed to an increase in share-based payments in the first quarter of 2012 compared to the first quarter of 2011, as well as an increase in the expected refund from the Scientific Research and Experimental Development (SR&ED) tax incentive program for the year ended December 31, 2011 and first quarter of 2012.

Other Loss (Income)

	2012 ($)	2011 ($)	$ change in 2012	% change in 2012
Other Loss (Income)				
Other income	(4,400)	-	-	-
Debenture accretion and interest costs	205,639	88,058	117,131	133.0
(Gain) on extension of debenture maturity dates	(225,263)	-	(225,263)	-
Other interest and related charges	91	76	15	1.3
	(23,933)	88,134	112,067	127.1

The increase in other finance costs in the three months ended March 31, 2012 compared to March 31, 2011 is primarily attributed to the accretion and interest expenses associated with the Series E5 debentures issued on March 9, 2012. The gain recorded in the first quarter of 2012 relates to the impact of the extension of the maturity dates of the Series A-E debentures to February 28, 2013, which occurred in conjunction with the closing of the Series E5 debentures.

Loss Per Share

For the three months ended March 31,

	2012 ($)	2011 ($)	$ change in 2012	% change in 2011
Loss	603,408	603,701	(293)	0.0
Basic and diluted loss per share	0.00	0.01	0.01	-

The loss per share for the three months ended March 31, 2012 compared to March 31, 2011 remained stable as increases in OG&A, share-based payments, debenture accretion expenses and interest expenses were offset by reduced R&D expenditures and a one-time gain on the extension of the maturity dates of the Series A-E debentures to February 28, 2013.

SUMMARY OF QUARTERLY RESULTS:

Quarterly Statements of Income:

For the three month period ended March 31, 2012

	Q1 ($)
Total assets	1,403,000
Revenues	-
Interest income	-
Operating, general and administrative	395,000
Research and development	122,000
Other operating expenses	111,000
Other income	(4,000)
Debenture accretion and interest costs	206,000
(Gain) on extension of debenture maturity dates	(225,000)
Net loss	603,000
Loss per share (basic and diluted)	0.00

For the year ended December 31, 2011

	Q1($)	Q2($)	Q3($)	Q4($)	2011 Total ($)
Total assets	563,000	439,000	657,000	1,202,000	1,202,000
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 operating expenses	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

	Q1($)	Q2($)	Q3($)	Q4($)	2011 Total ($)
Total assets	469,000	315,000	592,000	389,000	389,000
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 operating expenses	50,000	50,000	(35,000)	(198,000)	(133,000)
Net loss	436,000	430,000	402,000	176,000	1,444,000
Loss per share (basic and diluted)	0.00	0.00	0.00	0.00	0.02

LIQUIDITY AND CAPITAL RESOURCES

The cash balance at March 31, 2012 was $477,444, compared to $294,812 at December 31, 2011. Since inception, cash requirements have been financed primarily through issuances of securities. In the past two years, 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 $1,235,876 at March 31, 2012, compared to $1,389,004 at December 31, 2011.

The balance of debentures payable was $3,245,382 at March 31, 2012, compared to $2,646,446 at December 31, 2011.

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 three months ended March 31, 2012, operating activities used cash of $660,568 compared to $372,832 used in operations for the three months ended March 31, 2011. Cash used in operating activities reflects the net loss of $603,408 for the three months ended March 31, 2012, adjusted for non-cash items including share-based payments, amortization of equipment and intangible assets, debenture accretion and interest expenses, a gain on the extension of debenture maturity dates and changes in non-cash working capital. The increase in cash outflow in the three months ended March 31, 2012 is primarily due to payments made to reduce accounts payables.

Financing Activities

For the three months ended March 31, 2012, net financing activities generated cash of $843,200 compared to $543,885 for the three months ended March 31, 2011.

Shareholders' deficiency increased to $3,078,661 at March 31, 2012 from $2,833,804 at December 31, 2011, as the value of the debenture bonus shares issued and share-based payments issued, were insufficient to offset the net loss for the three months ended March 31, 2012.

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 May 30, 2012			
	Number of shares #	Number of options #	Number of warrants #	Net proceeds $
Common shares	135,487,219	-	-	10,335,840
Stock options	-	11,693,333	-	-
Common share purchase warrants	-	-	5,800,000	49,997
Total	135,487,219	11,693,333	5,800,000	10,385,837

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

	as at May 30, 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.

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.

Debenture Financings and Share Issuances

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 $0.06 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, a Director (David Hill) subscribed in the principal amount of $28,735.

Grant of Stock Options

On March 23, 2012, the Company granted stock options to acquire 4,675,000 common shares. The stock options were granted to 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 of 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).

Expiry of Stock Options

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

Subsequent Events

On April 4, 2012, the Company repaid $50,000 of the Series B debenture. Following this payment, the principal amount owing for the Series B debenture is $43,324, with a maturity date of February 28, 2013.

On May 17, 2012, the Company announced that it retained a US-based investor relations firm. Under the terms of the agreement, the Company agreed to immediately grant the firm stock options to purchase up to 462,500 common shares at an exercise of $0.10 per share, to vest in equal amounts quarterly over a 12 month period (the "Initial Grant"). In addition, the Company has agreed to grant 462,500 stock options three (3), six (6) and nine (9) months after the Initial Grant date at an exercise price equal to the Company's share price on the day of grant, provided that such price shall not be less than $0.10 per share, to vest in equal amounts quarterly over a 12 month period. All stock options will have an expiry period of 5 years from the date of grant, provided that the stock options will expire one year following the termination of this agreement in accordance with the policies of the Exchange.

On May 24, 2012, 260,000 options held by a current employee and a former employee expired unexercised.

On May 30, 2012, the Company granted stock options to acquire 260,000 common shares. The stock options were granted to a director and an employee at an exercise price of $0.10 per share for a term of 5 years from date of grant.

Related Party Transactions

At March 31, 2012, included in accounts payable and accrued liabilities is $445,939 (December 31, 2011: $439,877) due to officers and directors of the Company.

The value of share-based payments issued to related parties during the period ended March 31, 2012 is $228,000 (March 31, 2011: $45,533).

As at March 31, 2012, $113,207 (December 31, 2011: $84,472) of the interest-bearing debentures are due to a director of the Company.

On March 9, 2012, the Company completed a financing of secured Series E5 debentures in the aggregate principal amount of $1,075,865. Included in this total, was a $28,735 debenture from a director who also received 100,000 common shares at a price of $0.06 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 $420,000 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 after January 1, 2012. 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.

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 $603,408 for the three months ended March 31, 2012 and expects to incur losses from continuing operations for the foreseeable future. As at March 31, 2012, the Company had cash of $477,444. 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 $12 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 January 2012, the Company announced the results of the first human proof-of-concept clinical trial. In February 2012, the Company announced that Loewen, Ondaatje, McCutcheon Limited ("LOM") initiated analyst coverage of the Company. In April 2012, the Company announced that it has appointed Dr. Abraham Lieberman to Clinical Advisory Board. In May 2012, the Company announced that Dr. Perry Molinoff, Dr. Thomas Picone, and Anthony Giovinazzo will be nominated to join its Board of Directors at the May 30, 2012 Annual and Special Meeting of Shareholders. In addition, in May 2012 the Company commenced a second Phase 1 healthy human volunteer pilot study, with the results expected to be announced in July or August 2012. These developments over the past 6 months 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.

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