CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2012
(Expressed in Canadian Dollars)

Unaudited

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these Condensed Interim Consolidated Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CYNAPSUS THERAPEUTICS INC.
Condensed Interim Consolidated Statements of Financial Position

UNAUDITED
(in Canadian dollars)

	NOTES	March 31, 2012	December 31, 2011
		$	$
ASSETS			
Current assets			
Cash		477,444	294,812
Prepaid expenses and other current assets		86,800	53,233
Total current assets		564,244	348,045
Non-current assets			
Equipment	6	7,170	7,672
Intangible assets	7	831,183	845,929
Total assets		1,402,597	1,201,646
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8, 11	1,235,876	1,389,004
Debentures payable	9	3,245,382	2,646,446
Total current liabilities		4,481,258	4,035,450
SHAREHOLDERS’ DEFICIENCY			
Share capital	10	10,355,840	10,131,200
Equity reserves			
Warrants	10	49,997	49,997
Share-based payments	10	856,478	793,567
(Deficit)		(14,340,976)	(13,808,568)
Total shareholders’ deficiency		(3,078,661)	(2,833,804)
Total liabilities and shareholders’ deficiency		1,402,597	1,201,646

COMMITMENTS AND CONTINGENCIES (Notes 9 and 13)
GOING CONCERN (Note 2)

APPROVED BY THE BOARD:

“Ronald Hosking”, Director   “Rochelle Stenzler”, Director

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

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

UNAUDITED
(in Canadian dollars)

		For the three months ended	
	NOTES	**March 31, 2012**	**March 31, 2011**
		$	**$**
EXPENSES			
Operating, general and administrative		394,624	345,360
Research and development		121,801	146,360
Share-based payments	10	133,911	25,090
Amortization of intangible assets	7	14,746	2,777
Depreciation of equipment	6	502	691
Foreign exchange (gain)		(8,243)	(4,711)
(Recovery) on scientific research		(30,000)	-
Operating loss for the period		627,341	515,567
OTHER LOSS (INCOME)			
Other income		(4,400)	-
Debenture accretion and interest costs	9	205,639	88,058
(Gain) on extension of debenture maturity dates	9	(225,263)	-
Other interest and related charges		91	76
Loss and comprehensive loss for the period		603,408	603,701
Loss per share - basic and diluted		(0.00)	(0.01)
Weighted average number of shares outstanding – basic and diluted		132,616,819	97,793,086

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

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

UNAUDITED
(in Canadian dollars)

	Share Capital	Equity Reserves - Warrants	Equity Reserves - Share-Based Payments	Deficit	Total Equity
	$	$	$	$	$
Balance as at December 31, 2011	10,131,200	49,997	793,567	(13,808,568)	(2,833,804)
Debenture issuances, value of shares	224,640	-	-	-	224,640
Expiry of share-based payments	-	-	(71,000)	71,000	-
Share-based payments	-	-	133,911	-	133,911
Loss for the period	-	-	-	(603,408)	(603,408)
Activity for the period	224,640	-	62,911	(532,408)	(244,857)
Balance as at March 31, 2012	10,355,840	49,997	856,478	(14,340,976)	(3,078,661)
Balance as at December 31, 2010	9,140,310	236,183	849,469	(11,340,754)	(1,114,792)
Private placements, value of shares	186,097	-	-	-	186,097
Private placements, value of warrants	-	81,788	-	-	81,788
Debenture issuances, value of shares	71,760	-	-	-	71,760
Expiry of warrants	-	(54,809)	-	54,809	-
Expiry of share-based payments	-	-	(7,500)	7,500	-
Share-based payments	-	-	25,090	-	25,090
Loss for the period	-	-	-	(603,701)	(603,701)
Activity for the period	257,857	26,979	17,590	(541,392)	(238,966)
Balance as at March 31, 2011	9,398,167	263,162	867,059	(11,882,146)	(1,353,758)

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

CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Statements of Cash Flows

UNAUDITED
(in Canadian dollars)

		For the three months ended	
	NOTES	**March 31, 2012**	**March 31, 2011**
		$	**$**
Cash provided by (used in)			
Operating activities			
Loss for the period		(603,408)	(603,701)
Items not affecting cash:			
Share-based payments	10	133,911	25,090
Amortization of intangible assets	7	14,746	2,777
Depreciation of equipment	6	502	691
Debenture accretion expense	9	130,369	67,478
Accrual of debenture interest expense	9	75,270	20,580
(Gain) on extension of debenture maturity dates	9	(225,263)	-
		(473,873)	(487,085)
Changes in non-cash operating items:			
Change in prepaid expenses and other current assets		(33,567)	(6,597)
Change in accounts payables and accrued liabilities		(153,128)	120,850
Net cash (used in) operating activities		(660,568)	(372,832)
Financing activities			
Gross proceeds from issuance of shares and warrants		-	290,000
Commissions and share issuance costs		(12,800)	(22,115)
Proceeds from issuance of debentures and bonus shares	9	936,000	276,000
Partial repayment of debentures (principal and interest)	9	(80,000)	-
Net cash generated from financing activities		843,200	543,885
Increase (decrease) in cash		182,632	171,053
Cash, beginning of period		294,812	193,484
Cash, end of period		477,444	364,537

SUPPLEMENTARY CASH FLOW INFORMATION (Note 12)

The accompanying notes are an integral part of these condensed interim 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 6). 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. Adagio remains as a wholly-owned subsidiary of the Company.

2. BASIS OF PREPARATION AND GOING CONCERN

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

These Condensed Interim Consolidated Financial Statements of the Company and its subsidiary were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") including IAS 34 – Interim Financial Reporting. These Condensed Interim Consolidated Financial Statements have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2011. The policies set out in the Company's annual consolidated financial statements for the year ended December 31, 2011 were consistently applied to all the periods presented unless otherwise noted below.

These Condensed Interim Consolidated Financial Statements of the Company for the three months ended March 31, 2012 were approved and authorized for issue by the Board of Directors on May 30, 2012.

These financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis. Due to the 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 financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

3. FUTURE ACCOUNTING CHANGES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded.

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 -- Classification and Measurement ("IFRS 9") was issued 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 early adoption permitted. The Company has not yet determined the potential 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 financial statements for the annual period beginning January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

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.

IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to require entities to separate items presented in Other Comprehensive Income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these Condensed Interim 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.

5. RISK MANAGEMENT

Financial risk management
In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse affects on the Company's financial performance.

(i) Credit risk
The Company's cash balance is on deposit with a Canadian chartered bank. The Company has no significant concentration of credit risk arising from operations. 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 2). As at March 31, 2012, the Company had cash of $477,444 and prepaid expenses and other current assets of $86,600 (December 31, 2011 - $294,812 and $53,233) to settle current liabilities of $4,481,258 (December 31, 2011 - $4,035,450). 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 9. The Company believes movement in interest rates is “reasonably possible” over the next 12 months. Since cash has varying terms and rates, sensitivity to a plus or minus 1% change in rates could affect its net loss by approximately $5,000.

5. RISK MANAGEMENT

Market risk

(i) Interest rate risk

The Company has cash balances and debentures payable as at March 31, 2012. 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 March 31, 2012, the Company has face value of $3,726,641 (December 31, 2011 - $2,719,512) in debentures outstanding bearing 10% interest per annum due before February 28, 2013 (See Note 9).

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company funds certain research and development expenses in the United States and Europe on a cash call basis using the US Dollar and the Euro currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(iii) Price risk

The Company is exposed to price risk with respect to Active Pharmaceutical Ingredient (API) prices used in research and development activities. The Company monitors API prices in the United States, Europe and Asia to determine the appropriate course of action to be taken by the Company. Management believes that the price risk concentration with respect to API is remote.

(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 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, 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 March 31, 2012 the Company does not have any financial instruments measured at fair value that requires classification within the fair value hierarchy.

(in Canadian dollars)

5. RISK MANAGEMENT (continued)

Capital risk management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its research and development activities. The Company's capital structure consists of share capital and equity reserves. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business.

The products which the Company currently has in its pipeline are in the research and development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administration costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended March 31, 2012. The Company and its subsidiary are not subject to externally imposed capital requirements.

6. EQUIPMENT

The following is a summary of equipment as at March 31, 2012 and December 31, 2011:

	Computer Equipment	Furniture and Fixtures	Total
	$	$	$
Cost			
Original cost	15,270	9,318	24,588
Accumulated depreciation			
Accumulated depreciation at December 31, 2011	10,538	6,378	16,916
Depreciation	355	147	502
Accumulated depreciation at March 31, 2012	10,893	6,525	17,418
Net book value			
Net book value as at December 31, 2011	4,732	2,940	7,672
Net book value as at March 31, 2012	4,377	2,793	7,170

(in Canadian dollars)

7. 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.

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio. 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.

The following is a summary of intangible assets as at March 31, 2012 and December 31, 2011:

	APL-130277	License Agreement	Total
	$	$	$
Cost			
Original cost	718,150	200,000	918,150
Accumulated depreciation			
Balance at December 31, 2011	-	72,221	72,221
Amortization	11,969	2,777	14,746
Balance at March 31, 2012	11,969	74,998	86,967
Net book value			
Net book value as at December 31, 2011	718,150	127,779	845,929
Net book value as at March 31, 2012	706,181	125,002	831,183

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of accounts payable and accrued liabilities as at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
	$	$
Trade payables	699,594	867,364
Due to related parties (Note 11)	445,939	439,877
Accrued liabilities	90,343	81,763
	1,235,876	1,389,004

(in Canadian dollars)

9. 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% and the face value of the debentures increased as a result of the increase in capital discount to 13%.

As at March 31, 2012, the debentures issued to date are as follows:

	Original Face Value (8% Capital Discount)	Face Value (13% Capital Discount)	Proceeds	Issue Date	Due Date	Priority Rank on All Assets
	$	$	$			
Series A1	520,000	549,885	478,400	July 19, 2010	February 28, 2013	2nd
Series A2	180,000	190,344	165,600	July 26, 2010	February 28, 2013	2nd
Series B	100,000	105,747	92,000	November 24, 2010	February 28, 2013	2nd
Series C	300,000	317,241	276,000	January 28, 2011	February 28, 2013	2nd
Series D	500,000	528,736	460,000	May 25, 2011	February 28, 2013	1st
Series E1	-	488,503	425,000	September 29, 2011	February 28, 2013	1st
Series E2	-	172,414	150,000	November 4, 2011	February 28, 2013	1st
Series E3	-	155,172	135,000	December 15, 2011	February 28, 2013	1st
Series E4	-	229,885	200,000	December 28, 2011	February 28, 2013	1st
Series E5		1,075,865	936,000	March 9, 2012	February 28, 2013	1st
	1,600,000	3,813,792	3,318,000			

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 debenture financing, the due dates for all the other Series A-E debentures were extended to February 28, 2013.

(in Canadian dollars)

9. DEBENTURES PAYABLE (continued)

As at March 31, 2012, the value of the debentures and bonus shares issued to date are as follows

	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
Series E5	936,000	3,744,000	0.060	224,640	711,360
	3,318,000	13,272,000		619,880	2,698,120

The changes in the value of debentures from December 31, 2011 to March 31, 2012 are as follows:

	Debentures
	$
Balance, December 31, 2011	2,646,446
Series E5 debenture, present value on March 9, 2012	711,360
Commission costs	(12,800)
Debenture accretion expense for the period	130,369
Debenture interest expense accrual for the period	75,270
(Gain) on extension of debenture maturity dates	(225,263)
Partial repayment of Series A1 and A2 debentures (principal and interest)	(80,000)
Balance, March 31, 2012	3,245,382

On April 4, 2012, subsequent to the end of the quarter, 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.

(in Canadian dollars)

10. 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, December 31, 2011	131,743,219
Shares issued for Series E5 debentures on March 9, 2012	3,744,000
Balance, March 31, 2012	135,487,219

On March 9, 2012, the Company completed a financing of secured Series E5 debentures in the aggregate principal amount of $1,075,865 (See Note 9). 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.

iii) Equity Reserve – Warrants

Warrants outstanding and exercisable as at December 31, 2011 and March 31, 2012 is 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 March 31, 2012 is $NIL (December 31, 2011: $0.01).

(in Canadian dollars)

10. 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 or director and expire 90 days after the resignation of a 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 December 31, 2011 and March 31, 2012 is as follows:

	Number of Options	**Number of Shares Issuable on Exercise of Options**	**Weighted Exercise Price/Share**
	#	#	$
Options outstanding as at December 31, 2011	7,668,333	7,835,000	0.144
Granted	4,675,000	4,675,000	0.100
Expired	(650,000)	(650,000)	0.196
Options outstanding as at March 31, 2012	11,693,333	11,860,000	0.136

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

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 the date of grant.

The weighted average grant date fair value of the stock options issued during the year three month period ended March 31, 2012 is $0.06. 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 period ended March 31, 2012 has been estimated on the date of issue using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 146%, risk free rates of return of 1.53% and an expected life of 5 years.

(in Canadian dollars)

10. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

Stock options issued and outstanding as at March 31, 2012 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
400,000	400,000	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
600,000	600,000	0.200	June 25, 2013
250,000	250,000	0.200	August 28, 2013
1,350,000	1,350,000	0.100	August 31, 2014
500,000	500,000	0.100	November 16, 2014
425,000	425,000	0.100	March 3, 2015
1,200,000	1,200,000	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
4,675,000	4,675,000	0.100	March 9, 2017
11,693,333	11,860,000		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at March 31, 2012 is 8,309,988. The weighted average exercise price of these common shares as at March 31, 2012 is $0.14.

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at March 31, 2012 is 2.93 years and 2.05 years, respectively.

(in Canadian dollars)

10. 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 were 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. On March 23, 2012, the final 3,460,891 escrowed shares were released. At March 31, 2012, no shares from this amalgamation 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. 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 and as at March 31, 2012, a total of 22,123,238 common shares remain in escrow.

11. RELATED PARTY DISCLOSURES

Directors and key management are related parties to the Company. In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the Board of Directors (through the Corporate Governance and Compensation Committee) having regard to the performance of individuals and market trends.

Related party transactions during the three months ended March 31, 2012 and 2011 are included in operating, general and administrative expenses ("OG&A"), research and development expenses ("R&D"), and intangible assets as follows:

	Three Months Ended March 31,	
	2012	**2011**
Management fees/salary to President and CEO (OG&A)*	$ 56,250	$ 36,000
Salaries to other key management (OG&A)	71,938	57,000
Director fees (OG&A)	9,300	29,950
Consulting services (R&D)	18,105	-
	$155, 593	$ 122,950

*Effective January 1, 2012, the President and CEO transitioned from being a consultant to an employee.

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 (See Note 8). These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

(in Canadian dollars)

11. RELATED PARTY DISCLOSURES (Continued)

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.

See Note 13, Commitments and Contingent Liabilities, Related party management contracts and contingent liabilities.

12. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended March 31,	
	2012	2011
	$	$
Value of shares issued for debenture bonus shares	224,640	71,760
Expiry of warrants	-	(54,890)
Share based payments	133,911	25,090
Expiry of share based payments	(71,000)	(7,500)
Partial Repayment of Debentures (principal and interest)	(80,000)	-

13. 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 $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.

See Note 9, Debentures Payable.

14. 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 price 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.