CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Financial Statements
For the Six Months Ended June 30, 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	June 30, 2012	December 31, 2011
		$	**$**
ASSETS			
Current assets			
Cash		75,135	294,812
Prepaid expenses and other current assets		49,744	53,233
Total current assets		124,879	348,045
Non-current assets			
Equipment	6	6,671	7,672
Intangible assets	7	816,437	845,929
Total assets		947,987	1,201,646
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8, 11	1,490,101	1,389,004
Debentures payable	9	3,462,445	2,646,446
Total current liabilities		4,952,546	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	786,849	793,567
(Deficit)		(15,197,245)	(13,808,568)
Total shareholders' deficiency		(4,004,559)	(2,833,804)
Total liabilities and shareholders' deficiency		947,987	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)

	NOTES	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
		$	$	$	$
EXPENSES					
Operating, general and administrative		384,149	509,870	778,773	855,230
Research and development		251,998	190,157	373,799	336,517
Share-based payments	10	66,220	26,614	200,131	51,704
Amortization of intangible assets	7	14,746	2,778	29,492	5,555
Depreciation of equipment	6	499	690	1,001	1,381
Foreign exchange loss (gain)		8,189	8,960	(54)	4,249
(Recovery) on scientific research		(26,219)	(55,000)	(56,219)	(55,000)
Loss for the period before the undernoted		699,582	684,069	1,326,923	1,199,636
OTHER LOSS (INCOME)					
Other income		(2,200)	-	(6,600)	-
Debenture accretion and interest costs	9	294,663	119,753	500,302	207,811
(Gain) on extension of debenture maturity dates	9	-	-	(225,263)	-
Other interest and related charges		73	7,222	164	7,298
Loss and comprehensive loss for the period		992,118	811,044	1,595,526	1,414,745
Loss per share - basic and diluted		0.01	0.01	0.01	0.01
Weighted average number of shares outstanding – basic and diluted		135,487,219	100,991,131	134,080,633	99,400,943

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statements of Changes in Equity

UNAUDITED
(in Canadian dollars)

	Share Capital	Equity Reserves - Warrants	Equity Reserves - Share-Based Payments	Deficit	Total Deficiency
	$	$	$	$	$
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	-	-	(206,849)	206,849	-
Share-based payments	-	-	200,131	-	200,131
Loss for the period	-	-	-	(1,595,526)	(1,595,526)
Activity for the period	224,640	-	(6,718)	(1,388,677)	(1,170,755)
Balance as at June 30, 2012	10,355,840	49,997	786,849	(15,197,245)	(4,004,559)
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	163,759	-	-	-	163,759
Expiry of warrants	-	(54,809)	-	54,809	-
Expiry of share-based payments	-	-	(38,750)	38,750	-
Share-based payments	-	-	51,704	-	51,704
Loss for the period	-	-	-	(1,414,745)	(1,414,745)
Activity for the period	349,856	26,979	12,954	(1,321,186)	(931,397)
Balance as at June 30, 2011	9,490,166	263,162	862,423	(12,661,940)	(2,046,189)

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		For the six months ended	
	NOTES	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
		$	**$**	**$**	**$**
Cash provided by (used in)					
Operating activities					
Loss for the period		(992,118)	(811,044)	(1,595,526)	(1,414,745)
Items not affecting cash:					
Share-based payments	10	66,220	26,614	200,131	51,704
Amortization of intangible assets	7	14,746	2,778	29,492	5,555
Depreciation of equipment	6	499	690	1,001	1,381
Debenture accretion expense	9	195,168	93,759	325,537	161,237
Accrual of debenture interest expense	9	99,495	25,994	174,765	46,574
(Gain) on extension of debenture maturity dates	9	-	-	(225,263)	-
		(615,990)	(661,209)	(1,089,863)	(1,148,294)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		37,056	(58,030)	3,489	(64,627)
Change in accounts payables and accrued liabilities		254,225	80,694	101,097	201,544
Net cash (used in) operating activities		(324,709)	(638,545)	(985,277)	(1,011,377)
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	-	460,000	936,000	736,000
Partial repayment of debentures (principal and interest)	9	(77,600)	-	(157,600)	-
Net cash generated from financing activities		(77,600)	460,000	765,600	1,003,885
(Decrease) in cash		(402,309)	(178,545)	(219,677)	(7,492)
Cash, beginning of period		477,444	364,537	294,812	193,484
Cash, end of period		75,135	185,992	75,135	185,992

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"). 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 six months ended June 30, 2012 were approved and authorized for issue by the Board of Directors on August 29, 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 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, 2015, with early adoption permitted. The Company has not yet determined the potential impact of 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 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 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.

As of the date of the Consolidated Statement of Financial Position, the key assumptions concerning the future and other key sources of estimation and uncertainty 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 June 30, 2012, the Company had cash of $75,135 and prepaid expenses and other current assets of $49,744 (December 31, 2011 - $294,812 and $53,233) to settle current liabilities of $4,952,546 (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 $1,000.

5. RISK MANAGEMENT

Market risk

(i) Interest rate risk
The Company has cash balances and debentures payable as at June 30, 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 June 30, 2012, the Company has face value of $3,655,033 (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 not significant 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 minimal.

(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.

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 June 30, 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 June 30, 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 June 30, 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	710	291	1,001
Accumulated depreciation at June 30, 2012	11,248	6,669	17,917
Net book value			
Net book value as at December 31, 2011	4,732	2,940	7,672
Net book value as at June 30, 2012	4,022	2,649	6,671

(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 June 30, 2012 and December 31, 2011:

	APL-130277	License Agreement	Total
	$	$	$
Cost			
Original cost	718,150	200,000	918,150
Accumulated amortization			
Balance at December 31, 2011	-	72,221	72,221
Amortization	23,938	5,554	29,492
Balance at June 30, 2012	23,938	77,775	101,713
Net book value			
Net book value as at December 31, 2011	718,150	127,779	845,929
Net book value as at June 30, 2012	694,212	122,225	816,437

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of accounts payable and accrued liabilities as at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	$	$
Trade payables	875,472	867,364
Due to related parties (Note 11)	499,083	439,877
Accrued liabilities	115,546	81,763
	1,490,101	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 June 30, 2012, the debentures issued to date are as follows:

	Face Value (13% Capital Discount)	**Proceeds**	**Issue Date**	**Due Date**	**Priority Rank on All Assets**
	$	$			
Series A1	549,885	478,400	July 19, 2010	February 28, 2013	2nd
Series A2	190,344	165,600	July 26, 2010	February 28, 2013	2nd
Series B	105,747	92,000	November 24, 2010	February 28, 2013	2nd
Series C	317,241	276,000	January 28, 2011	February 28, 2013	2nd
Series D	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
	3,813,792	3,318,000			
Partial repayment of debentures in (principal)	158,759				
Face value of debentures at June 30, 2012	3,655,033				

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 June 30, 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 June 30, 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	325,537
Debenture interest expense accrual for the period	174,765
(Gain) on extension of debenture maturity dates	(225,263)
Partial repayment of Series A1, A2 and B debentures (principal and interest)	(157,600)
Balance, June 30, 2012	3,462,445

(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, June 30, 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 June 30, 2012 are as follows:

Number of Warrants	Number of Shares Issuable on Exercise of Warrants	Effective Strike Price	Estimated Grant Date Fair Value	Expiry Date
#	#	$/ Share	$	
5,800,000	5,800,000	0.10	49,997	February 2, 2013

The weighted average grant date fair value of the warrants issued during the period ended June 30, 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 June 30, 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	5,397,500	5,397,500	0.100
Expired	(1,693,333)	(1,760,000)	0.209
Options outstanding as at June 30, 2012	11,372,500	11,472,500	0.113

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 directors, officers and employees at an exercise price of $0.10 per share for a term of 5 years from the date of grant, and shall vest on the basis of 2,075,000 options immediately, 1,300,000 in 6 months, and 1,300,000 options in 12 months.

On May 17, 2012, the Company granted stock options to purchase up to 462,500 common shares. The stock options were granted to an employee at an exercise price of $0.10 per share for a term of 5 years from the date of grant, and shall vest in equal amounts quarterly over a 12 month period.

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 the date of grant, and shall vest on the basis of 126,666 options immediately, 66,666 in 6 months, and 66,667 options in 12 months.

(in Canadian dollars)

10. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

On May 31, 2012, 500,000 options held by a former board member expired unexercised.

On June 25, 2012, 300,000 options held by current board members expired unexercised.

On June 30, 2012, 50,000 options held by an officer expired unexercised.

The weighted average grant date fair value of the stock options issued during the six month period ended June 30, 2012 is $0.05. The exercise prices of stock options granted during the period were greater than the fair market value of the common shares on the date of grant. The fair value of the options granted during the six month period ended June 30, 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 146.1% to 151.7%, risk free rates of return of 1.25% to 1.53% and an expected life of 5 years.

Stock options issued and outstanding as at June 30, 2012 are as follows:

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price	Expiry Date
#	#	$/share	
50,000	150,000	0.317	August 31, 2012
600,000	600,000	0.200	April 4, 2013
500,000	500,000	0.200	June 25, 2013
250,000	250,000	0.200	August 28, 2013
1,250,000	1,250,000	0.100	August 31, 2014
500,000	500,000	0.100	November 16, 2014
425,000	425,000	0.100	March 3, 2015
1,100,000	1,100,000	0.100	August 12, 2015
150,000	150,000	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
462,500	462,500	0.100	May 17, 2017
260,000	260,000	0.100	May 30, 2017
11,372,500	11,472,500		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at June 30, 2012 is 7,460,000. The weighted average exercise price of these common shares as at June 30, 2012 is $0.12.

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at June 30, 2012 is 3.02 years and 3.51 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 June 30, 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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Management fees/salary to President and CEO (OG&A)	$ 56,250	$ 36,000	$ 112,500	$ 72,000
Salaries to other key management (OG&A)	71,963	76,142	143,875	133,142
Director fees (OG&A)	8,050	43,012	17,350	72,962
Consulting services (R&D)	24,990	119,730	43,095	119,730
	$ 161,253	$ 274,884	$ 316,820	$ 397,834

At June 30, 2012, included in accounts payable and accrued liabilities is $499,083 (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.

The value of share-based payments issued to related parties during the three and six month period ended June 30, 2012 was $10,000 and $238,000 (June 30, 2011: $Nil and $26,000).

(in Canadian dollars)

11. RELATED PARTY DISCLOSURES (continued)

As at June 30, 2012, $Nil (December 31, 2011: $84,472) of the interest-bearing debentures are due to directors of the Company, as the (former) director that holds interest-bearing debentures did not stand for re-election at the May 30, 2012 Annual and Special Meeting of Shareholders.

See Note 13, Commitments and Contingent Liabilities.

12. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	$	$	$	$
Value of shares issued for debenture bonus shares	-	91,999	224,640	163,759
Expiry of warrants	-	-	-	(54,809)
Share based payments	66,221	26,614	200,131	51,704
Expiry of share based payments	(135,849)	(31,250)	(206,849)	(38,750)
Partial repayment of debentures (principal and interest)	(77,600)	-	(157,600)	-

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 $429,000 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 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.

See Note 9, Debentures Payable.

14. SUBSEQUENT EVENTS

(a) On July 3, 2012 the Company sent a termination letter to Summer Street Research Partners (“SSRP”). The Company and SSRP entered into an engagement agreement dated December 13, 2010, relating to exclusive financial advisory services, which was supplemented and modified on September 20, 2011. Each provision of the agreements immediately terminated, except for residual rights for a residual period. The residual period shall extend for six (6) months from the date of the termination letter with respect to a list of participants in any transaction that were introduced by Summer Street or its assignees to the Company.

(b) On July 8, 2012 the Company announced that it has closed a non-brokered private placement of units ("Units"). The Company issued an aggregate of 2,000,000 units at a price of $0.05 per unit raising gross proceeds of $100,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of $0.10 for a period ending on the earlier of 5 years from the closing date, and a period ending 20 days after prior written notice from the Company that the closing price of its common shares on the principal stock exchange of the Company has been at least $0.15 per share for 20 consecutive trading days. The common shares issued under the private placement are subject to a hold period of four months expiring on November 19, 2012. Related parties including the President and Chief Executive Officer, Chief Scientific Officer, Chief Operating Officer/Chief Financial Officer participated on the same terms in the private placement for an aggregate of 5% of the issued Units.

(c) On August 8, 2012, the Company announced that it has been awarded a grant of USD $947,925 from The Michael J. Fox Foundation (MJFF) for Parkinson’s Research to support clinical studies to develop APL-130277, a sublingual (oral) thin film strip reformulation of Apomorphine. The grant was awarded under the Foundation's The Edmond J. Safra Core Programs for Parkinson’s Research, Clinical Intervention Awards aimed at supporting human clinical trials testing promising Parkinson’s therapies that may significantly and fundamentally improve treatment for people with Parkinson’s. Funds awarded by MJFF are to be used solely for the project and are conditioned by meeting certain milestones and deliverables. The first milestone payment of USD $297,825 is scheduled to be released within 30 days.

(d) On August 29, 2012, the Company granted stock options to acquire 462,500 common shares. The stock options were granted to an employee at an exercise of $0.10 per share for a period of 5 years from the date of grant, and shall vest in equal amounts quarterly over a 12 month period.

(e) On August 29, 2012, the Company granted stock options to acquire 350,000 common shares. The stock options were granted to directors and an officer at an exercise of $0.10 per share for a period of 5 years from the date of grant, with all options vesting immediately.