CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

Unaudited

CYNAPSUS THERAPEUTICS INC.
Condensed Interim Consolidated Statements of Financial Position

UNAUDITED
(in Canadian dollars)

	NOTES	September 30, 2012	December 31, 2011
		$	$
ASSETS			
Current assets			
Cash		287,188	294,812
Prepaid expenses and other current assets		42,137	53,233
Total current assets		329,325	348,045
Non-current assets			
Equipment	7	6,170	7,672
Intangible assets	8	801,689	845,929
Total assets		1,137,184	1,201,646
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9, 12	1,594,994	1,389,004
Debentures payable	10	3,761,070	2,646,446
Deferred grant proceeds	15	227,916	-
Total current liabilities		5,583,980	4,035,450
SHAREHOLDERS’ DEFICIENCY			
Share capital	11	10,410,422	10,131,200
Equity reserves			
Warrants	11	95,415	49,997
Share-based payments	11	852,684	793,567
(Deficit)		(15,805,317)	(13,808,568)
Total shareholders’ deficiency		(4,446,796)	(2,833,804)
Total liabilities and shareholders’ deficiency		1,137,184	1,201,646

COMMITMENTS AND CONTINGENCIES (Notes 10 and 14)
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		For the nine months ended	
	NOTES	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
		$	$	$	$
EXPENSES					
Operating, general and administrative		214,310	212,135	993,083	1,067,365
Research and development		104,731	51,782	478,530	388,299
Share-based payments	11	98,886	27,313	299,017	79,017
Amortization of intangible assets	8	14,748	2,778	44,240	8,333
Depreciation of equipment	7	501	691	1,502	2,072
Foreign exchange loss (gain)		(17,072)	22,799	(17,126)	27,048
(Recovery) on scientific research		(10,000)	(13,967)	(66,219)	(68,967)
Loss for the period before the undernoted		406,104	303,531	1,733,027	1,503,167
OTHER (INCOME) LOSS					
Research grant	15	(61,600)	-	(61,600)	-
Other income		(3,300)	(6,000)	(9,900)	(6,000)
Debenture accretion and interest costs	10	298,625	178,648	798,927	386,459
(Gain) on extension of debenture maturity dates	10	-	-	(225,263)	-
Other interest and related charges		1,294	511	1,458	7,809
Loss and comprehensive loss for the period		641,123	476,690	2,236,649	1,891,435
Loss per share - basic and diluted		0.00	0.00	0.02	0.02
Weighted average number of shares outstanding – basic and diluted		137,095,915	102,122,108	135,084,533	100,343,410

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 Deficiency
	$	$	$	$	$
Balance as at December 31, 2011	10,131,200	49,997	793,567	(13,808,568)	(2,833,804)
Private placement, value of shares	54,582	-	-	-	54,582
Private placement, value of warrants	-	45,418	-	-	45,418
Debenture issuance, value of shares	224,640	-	-	-	224,640
Expiry of share-based payments	-	-	(239,900)	239,900	-
Share-based payments	-	-	299,017	-	299,017
Loss for the period	-	-	-	(2,236,649)	(2,236,649)
Activity for the period	279,222	45,418	59,117	(1,996,749)	(1,612,992)
Balance as at September 30, 2012	10,410,422	95,415	852,684	(15,805,317)	(4,446,796)
Balance as at December 31, 2010	9,140,310	236,183	849,469	(11,340,754)	(1,114,792)
Private placement, value of shares	186,097	-	-	-	186,097
Private placement, value of warrants	-	81,788	-	-	81,788
Debenture issuances, value of shares	214,759	-	-	-	214,759
Expiry of warrants	-	(236,183)	-	236,183	-
Expiry of share-based payments	-	-	(88,250)	88,250	-
Share-based payments	-	-	79,017	-	79,017
Loss for the period	-	-	-	(1,891,435)	(1,891,435)
Activity for the period	400,856	(154,395)	(9,233)	(1,567,002)	(1,329,774)
Balance as at September 30, 2011	9,541,166	81,788	840,236	(12,907,756)	(2,444,566)

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 nine months ended	
	NOTES	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
		$	$	$	$
Cash provided by (used in)					
Operating activities					
Loss for the period		(641,123)	(476,690)	(2,236,649)	(1,891,435)
Items not affecting cash:					
Share-based payments	11	98,886	27,313	299,017	79,017
Amortization of intangible assets	8	14,748	2,778	44,240	8,333
Depreciation of equipment	7	501	691	1,502	2,072
Debenture accretion expense	10	206,785	117,121	532,322	278,358
Accrual of debenture interest expense	10	91,840	61,527	266,605	108,101
(Gain) on extension of debenture maturity dates	10	-	-	(225,263)	-
Research grant	15	(61,600)	-	(61,600)	-
		(289,963)	(267,260)	(1,379,826)	(1,415,554)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		7,607	46,554	11,096	(18,073)
Change in accounts payables and accrued liabilities		104,893	63,483	205,990	265,027
Net cash (used in) operating activities		(177,463)	(157,223)	(1,162,740)	(1,168,600)
Financing activities					
Gross proceeds from issuance of shares and warrants		100,000	-	100,000	290,000
Commissions and share issuance costs		-	-	(12,800)	(22,115)
Proceeds from issuance of debentures and bonus shares	10	-	425,000	936,000	1,161,000
Partial repayment of debentures (principal and interest)	10	-	-	(157,600)	-
Proceeds from research grant	15	289,516	-	289,516	-
Net cash generated from financing activities		389,516	425,000	1,155,116	1,428,885
Increase (decrease) in cash		212,053	267,777	(7,624)	260,285
Cash, beginning of period		75,135	185,992	294,812	193,484
Cash, end of period		287,188	453,769	287,188	453,769

SUPPLEMENTARY CASH FLOW INFORMATION (Note 13)
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 as at December 31, 2011, December 31, 2010, and January 1, 2010 and for the years ended December 31, 2011 and 2010. The policies set out in the Company’s annual consolidated financial statements were consistently applied to all the periods presented unless otherwise noted below.

These condensed interim consolidated financial statements of the Company for the nine months ended September 30, 2012 and 2011 were approved and authorized for issue by the Board of Directors on November 14, 2012.

These financial statements have been prepared in accordance with IFRS applicable to a going concern using the historical cost basis. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. 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. CHANGES TO ACCOUNTING POLICIES

New Accounting Policy

Deferred Grant Proceeds
The Company only recognizes grant proceeds on the consolidated statement of operations and comprehensive loss when the proceeds have been spent on research expenses. Grant amounts received prior are recorded as deferred grant proceeds. At September 30, 2012, the Company has $227,916 of deferred grant proceeds related to a grant received from the Michael J. Fox Foundation for Parkinson's Research to conduct clinical research in Parkinson's disease. The Company expects to conduct this research in H2 2012 and H1 2013 (See Note 15).

4. FUTURE ACCOUNTING CHANGES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting 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 consolidated 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 consolidated financial statements.

5. 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 condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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.

6. RISK MANAGEMENT

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

(i) Credit risk
The Company's cash 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 September 30, 2012, the Company had cash of $287,188 and prepaid expenses and other current assets of $42,137 (December 31, 2011 - $294,812 and $53,233) to settle current liabilities of $5,583,980 (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; however, some accounts payable have been outstanding for more than one year. The terms of the debentures payable are disclosed in Note 10. 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 the Company’s net loss by approximately $3,000.

6. RISK MANAGEMENT(continued)

Market risk

(i) Interest rate risk

The Company has cash balances and debentures payable as at September 30, 2012 and December 31, 2011. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. 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 September 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 on or before February 28, 2013 (See Note 10).

(ii) Foreign currency risk

The Company's functional and presentation currency is the Canadian dollar and all amounts in the condensed interim consolidated financial statements are expressed in Canadian dollars, unless otherwise noted. 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 condensed interim consolidated statement of financial position approximates fair value as the interest rate approximates the current rate for similar instruments.

As at September 30, 2012, and December 31, 2011, the Company does not have any financial instruments measured at fair value that require classification within the fair value hierarchy.

(in Canadian dollars)

6. 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 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 September 30, 2012. The Company and its subsidiary are not subject to externally imposed capital requirements.

7. EQUIPMENT

The following is a summary of equipment as at September 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	1,065	437	1,502
Accumulated depreciation at September 30, 2012	11,603	6,815	18,418
Net book value			
Net book value as at December 31, 2011	4,732	2,940	7,672
Net book value as at September 30, 2012	3,667	2,503	6,170

(in Canadian dollars)

8. 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 of $71 and liabilities of $15,234, $718,150 was recorded to intangible assets.

The following is a summary of intangible assets as at September 30, 2012 and December 31, 2011:

	APL-130277 Patents	License Agreement	Total
	$	$	$
Cost			
Original cost	718,150	200,000	918,150
Accumulated amortization			
Balance at December 31, 2011	-	72,221	72,221
Amortization	35,908	8,332	44,240
Balance at September 30, 2012	35,908	80,553	116,461
Net book value			
Net book value as at December 31, 2011	718,150	127,779	845,929
Net book value as at September 30, 2012	682,242	119,447	801,689

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2012	December 31, 2011
	$	$
Trade payables	984,976	867,364
Due to related parties (Note 12)	591,518	439,877
Accrued liabilities	18,500	81,763
	1,594,994	1,389,004

(in Canadian dollars)

10. 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 interest rate increased to 10% and the face value of the debentures increased as a result of the increase in capital discount to 13%.

The debentures are secured by security interests in all the assets of the Company as follows on September 30, 2012:

	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 debenture principal	158,759				
Face value of debentures at September 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)

10. DEBENTURES PAYABLE (continued)

As at September 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 on Date of Issuance	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 September 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	532,322
Accrual of debenture interest expense for the period	266,605
(Gain) on extension of debenture maturity dates	(225,263)
Partial repayment of Series A1, A2 and B debentures (principal and interest)	(157,600)
Balance, September 30, 2012	3,761,070

(in Canadian dollars)

11. 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
Shares issued for cash on July 18, 2012	2,000,000
Balance, September 30, 2012	137,487,219

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 10). 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.

On July 18, 2012 the Company announced that it closed a non-brokered private placement of 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 common 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.

The grant date fair value of the warrants was estimated at $45,418 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.13%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 149.5%.

(in Canadian dollars)

11. SHARE CAPITAL (continued)

iii) Equity Reserve – Warrants

Warrants outstanding and exercisable as at September 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
2,000,000	2,000,000	0.10	45,418	July 18, 2017
7,800,000	7,800,000		95,415	

The weighted average grant date fair value of the warrants issued during the period ended September 30, 2012 is $0.023 (December 31, 2011: $0.01).

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 September 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	6,210,000	6,210,000	0.100
Expired	(1,743,333)	(1,910,000)	0.217
Options outstanding as at September 30, 2012	12,135,000	12,135,000	0.110

11. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

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 after 6 months, and 1,300,000 options after 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.

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, 16,667 options held by an officer representing 50,000 common shares issuable on exercise of those options expired unexercised.

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.

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.

On August 31, 2012, 50,000 options held by current board members representing 150,000 common shares issuable on exercise of those options expired unexercised.

The weighted average grant date fair value of the stock options issued during the nine month period ended September 30, 2012 is $0.06. 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 nine month period ended September 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 153.2%, risk free rates of return of 1.25% to 1.53% and an expected life of 5 years.

(in Canadian dollars)

11. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

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

Number of Options	Number of Shares Issuable on Exercise of Options	Effective Strike Price	Expiry Date
#	#	$/share	
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
812,500	812,500	0.100	August 29, 2017
12,135,000	12,135,000		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2012 is 9,625,622. The weighted average exercise price of these common shares as at September 30, 2012 is $0.11.

The weighted average contractual life remaining for the exercisable and outstanding stock options at September 30, 2012 is 3.15 years and 3.41 years, respectively.

(in Canadian dollars)

11. 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 September 30, 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 1,938,381 common shares to Adagio shareholders and as at September 30, 2012, a total of 22,123,238 common shares remain in escrow.

12. 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 nine months ended September 30, 2012 and 2011 are included in operating, general and administrative expenses ("OG&A"), and research and development expenses ("R&D") as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Management fees/salary to President and CEO (OG&A)	51,923	36,000	164,423	108,000
Salaries to other key management (OG&A)	66,404	61,323	210,279	180,442
Director fees (OG&A)	9,180	22,250	26,530	155,215
Consulting services (R&D)	50,583	19,786	93,678	122,728
	178,090	139,359	494,910	566,383

At September 30, 2012, included in accounts payable and accrued liabilities is $591,518 (December 31, 2011: $439,877) due to officers and directors of the Company (See Note 9). 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 nine month periods ended September 30, 2012 was $21,000 and $259,000 (September 30, 2011: $8,000 and $34,000).

(in Canadian dollars)

12. RELATED PARTY DISCLOSURES (continued)

As at September 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 14, Commitments and Contingent Liabilities.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	$	$	$	$
Value of shares issued for debenture bonus shares	-	51,000	224,640	214,759
Expiry of warrants	-	(181,374)	-	(236,183)
Expiry of share based payments	(33,051)	(49,500)	(239,900)	(88,250)

14. 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 10, Debentures Payable.

14. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Company and the principal shareholders of Adagio entered into a share purchase agreement dated December 22, 2011 providing for the purchase by the Company of all the issued and outstanding shares of Adagio. Upon closing, the Adagio shareholders were issued 26,000,000 common shares. In addition, the Adagio shareholders are entitled to the following payments pursuant to the transaction:

(a) a payment of $1,500,000 conditional upon the successful completion of the APL-130277 Phase 1 bioequivalence studies, to be satisfied by the issuance of common shares at a deemed value equal to the 30 day volume weighted average trading price ("VWAP") immediately prior to the first public announcement of the results of such studies; and

(b) a payment of $2,500,000 conditional upon the successful completion of the APL-130277 final safety study, to be satisfied by the issuance of common shares at a deemed value equal to the 30 day VWAP immediately prior to the first public announcement of the results of such study.

With respect to the payments described in (a) and (b) above, the VWAP of the common shares may not be less than the "discounted market price" as defined in the policies of the Exchange.

15. RESEARCH GRANT

On August 8, 2012, the Company announced that it had 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. 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 was received on September 20, 2012 (See Note 3). The Company expects to conduct this research in H2 2012 and H1 2013.

16. SUBSEQUENT EVENTS

(a) On October 3, 2012, Cynapsus announced that it has signed a term sheet with a Health Care / Life Sciences focused Institutional Investment Group (the "Lead Investor") to be the lead investor in a short form prospectus offering of $7 million of its common shares and warrants.

(b) On October 24, 2012 the Company announced that it closed a brokered private placement of 3,400,000 units at a price of $0.05 per unit raising gross proceeds of $170,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price, subject to adjustment, of $0.0625 per warrant share from the closing date for a period of 12 months, and thereafter at an exercise price of $0.10 per warrant share. If the common shares of the Company are consolidated during the 12 month period following the closing date on a basis of more than 1.6 common shares for one new common share then the automatic increase in the exercise price of the warrants 12 months following the closing date will not apply, provided the exercise price will nevertheless be adjusted as a result of the consolidation in accordance with the terms of the warrant. The warrants shall be exercisable by the holder thereof on any business day during the period ending 60 months following the closing date. The Company paid to Northern Securities Inc. cash commissions of $5,200 and issued 104,000 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the private placement. The common shares issued under the private placement are subject to a hold period of four months expiring on February 24, 2013.

16. SUBSEQUENT EVENTS (continued)

(c) On November 14, 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.