CYNAPSUS THERAPEUTICS INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

(Expressed in Canadian Dollars)

TABLE OF CONTENTS

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Web www.mhc-ca.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cynapsus Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Cynapsus Therapeutics Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cynapsus Therapeutics Inc. and its subsidiary as at December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 24, 2013

As at December 31, 2012 and December 31, 2011
(in Canadian dollars)

	NOTES	December 31, 2012	December 31, 2011
		$	$
ASSETS			
Current assets			
Cash		50,401	294,812
Deferred financing costs	8	263,401	-
Prepaid expenses and other current assets		62,515	53,233
Total current assets		376,317	348,045
Non-current assets			
Equipment	9	5,670	7,672
Intangible assets	7, 10, 15	786,943	845,929
Total assets		1,168,930	1,201,646
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11, 15	2,119,438	1,389,004
Debentures payable	12	4,059,693	2,646,446
Total current liabilities		6,179,131	4,035,450
SHAREHOLDERS' DEFICIENCY			
Share capital	13	10,528,756	10,131,200
Equity reserves			
Warrants	13	204,353	49,997
Share-based payments	13	889,215	793,567
(Deficit)		(16,632,525)	(13,808,568)
Total shareholders' deficiency		(5,010,201)	(2,833,804)
Total liabilities and shareholders' deficiency		1,168,930	1,201,646

COMMITMENTS AND CONTINGENCIES (Notes 7 and 17)
GOING CONCERN (Note 2)
SUBSEQUENT EVENTS (Note 19)

APPROVED ON BEHALF OF THE BOARD:

"Ronald Hosking", Director   "Rochelle Stenzler", Director

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

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2012 and 2011
(in Canadian dollars)

	NOTES	December 31, 2012	December 31, 2011
		$	$
EXPENSES			
Operating, general and administrative		1,373,192	1,236,297
Research and development		814,716	907,483
Share-based payments	13	335,497	87,348
Amortization of intangible assets	10	58,986	11,110
Depreciation of equipment	9	2,002	2,762
Foreign exchange (gain) loss		(9,572)	23,094
(Recovery) on scientific research		(86,219)	(51,467)
Loss before other loss (income)		2,488,602	2,216,627
OTHER LOSS (INCOME)			
Research grant	14	(289,516)	-
Other income		(13,200)	(9,300)
Debenture accretion and interest costs	12	1,097,552	631,980
(Gain) on extension of debenture maturity dates	12	(225,263)	-
Other interest and related charges		5,631	7,940
Loss and comprehensive loss for the year		3,063,806	2,847,247
Loss per share – basic and diluted	19	0.22	0.28
Weighted average number of shares outstanding – basic and diluted	19	13,646,411	10,196,138

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2012 and 2011
(in Canadian dollars)

	Share Capital	Equity Reserves – Warrants	Equity Reserves - Share-Based Payments	Deficit	Total
	$	$	$	$	$
Balance as at December 31, 2010	**9,140,310**	**236,183**	**849,469**	**(11,340,754)**	**(1,114,792)**
Private placement, net of transaction costs	217,330	49,997	-	-	267,327
Debenture issuances, value of shares	253,560	-	-	-	253,560
Acquisition of intangible asset, value of shares	520,000	-	-	-	520,000
Expiry of warrants	-	(236,183)	-	236,183	-
Expiry of share-based payments	-	-	(143,250)	143,250	-
Share-based payments	-	-	87,348	-	87,348
Loss for the year	-	-	-	(2,847,247)	(2,847,247)
Activity for the year	990,890	(186,186)	(55,902)	(2,467,814)	(1,719,012)
Balance as at December 31, 2011	**10,131,200**	**49,997**	**793,567**	**(13,808,568)**	**(2,833,804)**
Private placement, net of transaction costs	172,916	154,356	-	-	327,272
Debenture issuance, value of shares	224,640	-	-	-	224,640
Expiry of share-based payments	-	-	(239,849)	239,849	-
Share-based payments	-	-	335,497	-	335,497
Loss for the year	-	-	-	(3,063,806)	(3,063,806)
Activity for the year	397,556	154,356	95,648	(2,823,957)	(2,176,397)
Balance as at December 31, 2012	**10,528,756**	**204,353**	**889,215**	**(16,632,525)**	**(5,010,201)**

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

For the years ended December 31, 2012 and 2011
(in Canadian dollars)

	NOTES	December 31, 2012	December 31, 2011
		$	$
Cash provided by (used in)			
Operating activities			
Loss for the year		(3,063,806)	(2,847,247)
Items not affecting cash:			
Share-based payments	13	335,497	87,348
Amortization of intangible assets	10	58,986	11,110
Depreciation of equipment	9	2,002	2,762
Debenture accretion expense	12	738,616	465,322
Accrual of debenture interest expense	12	358,936	166,658
(Gain) on extension of debenture maturity dates	12	(225,263)	-
		(1,795,032)	(2,114,047)
Changes in non-cash operating items:			
Change in prepaid expenses and other current assets		(9,282)	(6,971)
Change in accounts payables and accrued liabilities		467,033	400,818
Net cash (used in) operating activities		(1,337,281)	(1,720,200)
Investing activities			
Acquisition of intangible assets	7, 10	-	(44,999)
Net cash (used in) investing activities		-	(44,999)
Financing activities			
Gross proceeds from issuance of shares and warrants	13	333,100	290,000
Proceeds from issuance of debentures and bonus shares	12	936,000	1,646,000
Finance and share issuance costs	13	(18,630)	(49,473)
Partial repayment of debentures (principal and interest)	12	(157,600)	(20,000)
Net cash generated from financing activities		1,092,870	1,866,527
(Decrease) increase in cash		(244,411)	101,328
Cash, beginning of year		294,812	193,484
Cash, end of year		50,401	294,812

SUPPLEMENTARY CASH FLOW INFORMATION (Note 16)

The accompanying notes are an integral part of these 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 7). Adagio remains as a wholly-owned subsidiary of the Company.

On April 24, 2013, the Board of Directors approved and authorized the consolidated financial statements for the year ended December 31, 2012.

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 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") and the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared in accordance with IFRS applicable to a going concern using the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. Due to continuing operating losses and a working capital deficiency, the application of the going concern basis of accounting 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 consolidated 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 consolidated financial statements. Such adjustments could be material.

Notwithstanding the above, subsequent to December 31, 2012, there have been several positive changes to the Company's cash, debt and equity positions (See Note 19, Subsequent Events).

Subsequent to December 31, 2012, the Company completed a share consolidation of the Company's issued and outstanding common shares on the basis of one (1) new common share for every ten (10) common shares issued and outstanding. As required under IFRS, all common shares, option, warrants and per share amounts have been restated to give retrospective effect to the share consolidation.

3. FUTURE ACCOUNTING CHANGES

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 7 — Financial Instruments: Disclosures ("IFRS 7") was amended by the IASB in December 2011 to amend the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

3. FUTURE ACCOUNTING CHANGES (continued)

IAS 27 - Separate Financial Statements ("IAS 27") was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these 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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges
In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Share-Based Payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

See Note 17, Commitments and Contingent Liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Subsidiaries
Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. The Company has a shareholding of more than one half of the voting rights in its subsidiary. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Financial instruments
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.

(ii) **Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other gains and losses.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less transaction costs and when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities at amortized cost are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets
A financial asset not carried at fair value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Cash and cash equivalents
Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of ninety days or less and which are not subject to significant risk of changes in value. As at December 31, 2012, the Company had $Nil cash equivalents (December 31, 2011 - $Nil).

Prepaid expenses and other current assets
Prepaid expenses consist of amounts paid in advance for items that have future value to the Company. Other current assets consist of amounts due from tax credits receivable.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment
Equipment is recorded at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of equipment comprises its purchase price. The useful lives of equipment are reviewed at least once per year. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Equipment is depreciated using the diminishing balance method based on their estimated useful lives as follows:

- Computer equipment – 30% per annum
- Furniture and fixtures – 20% per annum

Intangible assets
Intangible assets comprise a license for intellectual property that expires when the last patent expires, and intellectual property that was acquired. The license for intellectual property is recorded at cost and is amortized on a straight line basis over an estimated useful life of 18 years net of any accumulated impairment losses. The intellectual property acquired is recorded at cost and is amortized on a straight line basis over an estimated useful life of 15 years net of any accumulated impairment losses.

Impairment of non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit", or "CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Share capital
The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash are valued based on their estimated market value on the earlier of the date the shares are issued or the goods or services are received from the counterparty.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

The Company conducts research and development programs and incurs costs related to these activities, including employee compensation, materials, professional services and services provided by contract research organizations. Research and development costs, net of contractual reimbursements from development partners, are expensed in the periods in which they are incurred.

General provisions

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations and comprehensive loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employee entitlements

Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

Income taxes

Income tax comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Share-based payments

The Company has a stock option plan that is described in Note 13(iv). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is applied to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Upon expiry, the recorded value is transferred to deficit.

Research grants

Research grants are recognized as a recovery on scientific research in the statement of operations when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are translated using the rate in effect at the consolidated statement of financial position date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the determination of loss for the period.

Loss per share
Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated assuming that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. All shares issuable from options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended December 31, 2012 and 2011.

Subsequent to December 31, 2012, the Company completed a share consolidation of the Company's issued and outstanding common shares on the basis of one (1) new common share for every ten (10) common shares issued and outstanding. All common shares, option, warrants and per share amounts have been restated to give retrospective effect to the share consolidation.

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. There were no changes in the Company's approach to risk management during the years ended December 31, 2012 and 2011.

(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 December 31, 2012, the Company had cash of $50,401 and other current assets of $325,916 (December 31, 2011 - $294,812 and $53,233) to settle current liabilities of $6,179,131 (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 12. 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 $500.

6. RISK MANAGEMENT (continued)

Market risk

(i) Interest rate risk

The Company has cash balances and debentures payable as at December 31 2012 and 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 December 31, 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 12).

(ii) Foreign currency risk

The Company's functional and presentation currency is the Canadian dollar and all amounts in the 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 is 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 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 December 31, 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.

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 years ended December 31, 2012 and 2011. The Company and its subsidiary are not subject to externally imposed capital requirements.

7. ACQUISITION OF ADAGIO PHARMACEUTICALS LTD.

On July 26, 2010, the Company entered into a license option agreement with Adagio granting the Company the option to execute a proposed exclusive, worldwide agreement to license all intellectual property relating to APL-130277, a reformulation of an approved Parkinson's drug. The two parties also finalized an exclusive worldwide license that would result in the Company assuming product development and commercialization rights to APL-130277 from Adagio in return for development milestones and royalties to Adagio, including common shares of the Company. The Company issued 75,000 common shares at an estimated fair value of $0.50 per share to Adagio. The license agreement included an exclusive option period for the first twelve months which allowed the Company to conduct further due diligence and proof-of-concept studies for APL-130277 prior to executing the full license. The Company had the option to exercise the option on or before July 22, 2011 by issuing shares equal to a fair market value of $200,000, based on a price equal to the greater of the average of the Company shares for the fifteen days prior to the exercise date or a price of $1.00 per share. On July 19, 2011, the license option agreement was amended to extend the expiration of the option period from July 22, 2011 to December 31, 2011.

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio (the "Transaction"). The results of Adagio's operations have been included in these consolidated financial statements since the acquisition date. The acquisition was accounted for as a purchase of assets by the Company 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.

(in Canadian dollars)

7. ACQUISITION OF ADAGIO PHARMACEUTICALS LTD. (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Consideration paid:		
Value of common shares issued	$	520,000
Transaction costs		182,987
	$	702,987
Net assets acquired:		
Current assets	$	71
Intangible assets		718,150
Current liabilities		(15,234)
	$	702,987

Terms of the Transaction

The Transaction was structured as a share exchange with Adagio shareholders receiving newly issued common shares of the Company in exchange for all of the issued and outstanding shares of Adagio. Adagio shareholders are entitled to the following payments pursuant to the Transaction:

a) the immediate issuance of 2,600,000 common shares. The value of the shares of $520,000 was calculated based on the $0.20 closing trading price of a common share on the date of issuance;

b) a payment of $1,500,000 conditional upon the successful completion of the APL-130277 Phase 1 bioequivalence studies, to be satisfied by the issuance of common shares at a deemed value equal to the 30 day volume weighted average trading price ("VWAP") immediately prior to the first public announcement of the results of such study. This study has not been started as of December 31, 2012; and

c) a payment of $2,500,000 conditional upon the successful completion of the APL-130277 final safety study, to be satisfied by the issuance of common shares at a deemed value equal to the 30 day VWAP immediately prior to the first public announcement of the results of such study. This study has not been started as of December 31, 2012.

Related Party Transaction

The Transaction constituted a related party transaction. The President and Chief Executive Officer of Cynapsus, was also a director, officer and majority shareholder of Adagio. To satisfy the Board of Director's fiduciary duties and to appropriately manage the related party transaction, the Board of Directors saw fit to appoint an independent Special Committee of the Board with independent legal counsel. In addition, the Special Committee of the Board of Directors retained an independent US FINRA/SIPC registered financial advisor to provide a fairness opinion. The Company also obtained minority shareholder approval.

7. ACQUISITION OF ADAGIO PHARMACEUTICALS LTD. (continued)

Escrow Arrangements

Escrow release conditions apply to the 2,600,000 common shares that were issued to the Adagio shareholders. These conditions defer release of the initial consideration shares until specified capital raising thresholds totalling $8,000,000 have been achieved.

The initial share consideration consisting of 2,600,000 common shares will be released as follows under a corporate escrow agreement:

a) 325,000 common shares are to be released upon completion of a capital raise in the amount of $250,000 to $1,000,000.

b) a further 325,000 common shares are to be released upon completion of capital raises, including the amount referred to in a) above, in the aggregate amount of $2,000,000.

c) a further 325,000 common shares are to be released upon completion of each subsequent capital raises in the aggregate amount of $1,000,000 or multiples thereof, in excess of $2,000,000, until capital raises totalling $8,000,000 have been achieved.

The 1,399,066 common shares issued to the President and Chief Executive Officer of Cynapsus are subject to a separate and distinct contractual escrow. The escrow arrangement provides, among other things, that:

a) 25% of all such common shares will be released immediately; and

b) 75% of all such common shares will be placed into escrow provided that 1/3 of the common shares will be released on each of the 12 month anniversaries of the closing of the Transaction.

Based on the above corporate and executive escrow agreements, 193,838 (2011 – 193,838) common shares have been released in 2012, such that 2,212,324 (2011 – 2,406,162) of the 2,600,000 common shares remain in escrow as of December 31, 2012. All released common shares are subject to a 4-month hold period.

Subsequent to December 31, 2012, the Company completed two closings of a short form prospectus offering for gross proceeds $7,317,160 (See Note 19, Subsequent Events). As a result, all the common shares held under the corporate escrow have been released, with only 50% of the shares under the executive escrow agreement still in escrow. A total of 699,530 shares are still under executive escrow.

In the event of a sale of the Company, including but not limited to a sale of substantially all of the assets of the Company, a merger or acquisition or a plan of arrangement, or whereby a new controlling shareholder is established, all shares then remaining in escrow would be immediately released.

(in Canadian dollars)

8. DEFERRED FINANCING COSTS

On October 18, 2012, the Company signed an engagement letter with M Partners Inc. (the "Agent") to act as lead agent in a proposed short form prospectus offering for gross proceeds of $6 million to $8 million. On November 26, 2012, the Company filed a preliminary short form prospectus with the securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario. Final pricing and determination of the number of common shares and warrants to be sold pursuant to the Offering occurred immediately prior to the filing of the final short form prospectus in respect of the offering on February 21, 2013. The Company agreed to pay to the Agent a cash commission of up to 8% of the gross proceeds of the offering and broker warrants for up to 8% of the units sold pursuant to the offering. The Company has also agreed to pay the Agent a corporate finance fee of $87,500 and to reimburse the Agent for certain expenses incurred in connection with the Offering. Additional financing costs include items such as legal and other professional expenses, and regulatory filing fees.

As at December 31, 2012, the Company had deferred financing costs of $263,401 (December 31, 2011 – NIL). These costs were recorded against share capital gross proceeds upon closing of the offering (See Note 19, Subsequent Events).

9. EQUIPMENT

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

	Computer Equipment	Furniture and Fixtures	Total
	$	$	$
Cost			
Cost at December 31, 2010, 2011 and 2012	15,270	9,318	24,588
Accumulated depreciation			
Accumulated depreciation at December 31, 2010	8,510	5,644	14,154
Depreciation during 2011	2,028	734	2,762
Accumulated depreciation at December 31, 2011	10,538	6,378	16,916
Depreciation during 2012	1,420	582	2,002
Accumulated depreciation at December 31, 2012	11,958	6,960	18,918
Net book value			
Net book value as at December 31, 2011	4,732	2,940	7,672
Net book value as at December 31, 2012	3,312	2,358	5,670

(in Canadian dollars)

10. INTANGIBLE ASSETS

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

	APL-130277 Patents	License Agreement	Total
	$	$	$
Cost			
Original cost, December 31, 2010	-	200,000	200,000
Additions	718,150	-	718,150
Original cost, December 31, 2011 and 2012	718,150	200,000	918,150
Accumulated Amortization			
Balance at December 31, 2010	-	61,111	61,111
Amortization during 2011	-	11,110	11,110
Balance at December 31, 2011	-	72,221	72,221
Amortization during 2012	47,876	11,110	58,986
Balance at December 31, 2012	47,876	83,331	131,207
Net book value			
Net book value as at December 31, 2011	718,150	127,779	845,929
Net book value as at December 31, 2012	670,274	116,669	786,943

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio (See Note 7). The acquisition was accounted for as a purchase of assets by the Company, 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.

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, which will expire in February 2023, and are currently pending in others.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2012	December 31, 2011
	$	$
Trade payables	1,091,746	867,364
Due to related parties (Note 15)	649,504	439,877
Accrued liabilities	378,188	81,763
	2,219,438	1,389,004

(in Canadian dollars)

12. 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 December 31, 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 December 31, 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 374,400 common shares to the debenture holders at a price of $0.60 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 (See Note 13 (ii)).

(in Canadian dollars)

12. DEBENTURES PAYABLE (continued)

As at December 31, 2012, the value of the debentures and bonus shares issued (see Note 13(ii)) are as follows:

	Proceeds	Bonus Shares Issued	Share Price on Date of Issuance	Value of Bonus Shares on Date of Issuance	Value of Debentures on date of issue
	$	#	$/share	$	$
Series A1	478,400	191,360	0.50	95,680	382,720
Series A2	165,600	66,240	0.50	33,120	132,480
Series B	92,000	36,800	0.35	12,880	79,120
Series C	276,000	110,400	0.65	71,760	204,240
Series D	460,000	184,000	0.50	92,000	368,000
Series E1	425,000	170,000	0.30	51,000	374,000
Series E2	150,000	60,000	0.20	12,000	138,000
Series E3	135,000	54,000	0.20	10,800	124,200
Series E4	200,000	80,000	0.20	16,000	184,000
Series E5	936,000	374,400	0.60	224,640	711,360
	3,318,000	1,327,200		619,880	2,698,120

The changes in the value of debentures from December 31, 2010 to December 31, 2011 were as follows:

	Debentures
	$
Balance, December 31, 2010	668,826
Series C debenture, present value on January 28, 2011	204,240
Series D debenture, present value on May 25, 2011	368,000
Series E1 debenture, present value on September 29, 2011	374,000
Series E2 debenture, present value on November 4, 2011	138,000
Series E3 debenture, present value on December 15, 2011	124,200
Series E4 debenture, present value on December 28, 2011	184,000
Finance costs for the year 2011	(26,800)
Debenture accretion expense for the year 2011	465,322
Debenture interest expense accrual for the year 2011	166,658
Partial repayment of Series B debenture made in 2011	(20,000)
Balance, December 31, 2011	2,646,446

(in Canadian dollars)

12. DEBENTURES PAYABLE (continued)

The changes in the value of debentures from December 31, 2011 to December 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 for the year	(12,802)
Debenture accretion expense for the year	738,616
Accrual of debenture interest expense for the year	358,936
(Gain) on extension of debenture maturity dates during the year	(225,263)
Partial repayment of Series A1, A2 and B debentures (principal and interest) during the year	(157,600)
Balance, December 31, 2012	4,059,693

On February 28, 2013, the total balance of the Series A to Series E debentures outstanding was $4,238,717. On March 1, 2013, holders of $4,031,406 in Series A to Series E debentures agreed to an exchange of debt for shares and warrants, with the remaining $207,311 repaid. (See Note 19, Subsequent Events).

(in Canadian dollars)

13. 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, January 1, 2011	9,335,922
Shares issued for Series C debentures on January 28, 2011	110,400
Shares issued for cash on February 2, 2011	580,000
Shares issued for Series D debentures on May 25, 2011	184,000
Shares issued for Series E1 debentures on September 29, 2011	170,000
Shares issued for Series E2 debentures on November 4, 2011	60,000
Shares issued for Series E3 debentures on December 15, 2011	54,000
Shares issued for acquisition of Adagio on December 22, 2011	2,600,000
Shares issued for Series E4 debentures on December 28, 2011	80,000
Balance, December 31, 2011	13,174,322
Shares issued for Series E5 debentures on March 9, 2012	374,400
Shares issued for cash on July 18, 2012	200,000
Shares issued for cash on October 24, 2012	340,000
Shares issued for cash on November 23, 2012	126,200
Balance, December 31, 2012	14,214,922

Subsequent to December 31, 2012, the Company completed a share consolidation of the Company's issued and outstanding common shares on the basis of one (1) new common share for every ten (10) common shares issued and outstanding. All common shares, option, warrants and per share amounts have been restated to give retrospective effect to the share consolidation.

On January 28, 2011, the Company completed a financing of secured Series C debentures in the aggregate principal amount of $300,000 (See Note 12). As part of the financing, the Company issued 110,400 common shares to the debenture holders at a price of $0.65 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On February 2, 2011, the Company, as part of a private placement, issued 580,000 units at a price of $0.50 per unit raising gross proceeds of $290,000. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of $1.00 per share until February 2, 2013. The grant date fair value of the warrants was estimated at $54,124 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.65%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 127.96%. Share issue costs related to this private placement were $22,115, of which $4,127 was allocated to warrants.

13. SHARE CAPITAL (continued)

ii) Issued and outstanding common shares (continued)

On May 25, 2011, the Company completed a financing of secured Series D debentures in the aggregate principal amount of $500,000 (See Note 12). As part of the financing, the Company issued 184,000 common shares to the debenture holders at a price of $0.50 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On September 29, 2011, the Company completed a financing of secured Series E1 debentures in the aggregate principal amount of $488,503 (See Note 12). As part of the financing, the Company issued 170,000 common shares to the debenture holders at a price of $0.30 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On November 4, 2011, the Company completed a financing of secured Series E2 debentures in the aggregate principal amount of $172,414 (See Note 12). As part of the financing, the Company issued 60,000 common shares to the debenture holders at a price of $0.20 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 15, 2011, the Company completed a financing of secured Series E3 debentures in the aggregate principal amount of $155,172 (See Note 12). As part of the financing, the Company issued 54,000 common shares to the debenture holders at a price of $0.20 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 22, 2011, the Company completed the acquisition of Adagio (See Note 7). As part of the acquisition, the Company issued 2,600,000 common shares at a price of $0.20 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

On December 28, 2011, the Company completed a financing of secured Series E4 debentures in the aggregate principal amount of $229,885 (See Note 12). As part of the financing, the Company issued 80,000 common shares to the debenture holders at a price of $0.20 per share. The share price was estimated based on the trading price of a common share on the date of issuance.

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 12). As part of the financing, the Company issued 374,400 common shares to the debenture holders at a price of $0.60 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 200,000 units at a price of $0.50 per unit raising gross proceeds of $100,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of $1.00 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 $1.50 per share for 20 consecutive trading days. The common shares issued under the private placement were subject to a hold period of four months which expired on November 19, 2012. Related parties including the President and Chief Executive Officer, Chief Scientific Officer, and 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%.

13. SHARE CAPITAL (continued)

ii) Issued and outstanding common shares (continued)

On October 24, 2012 the Company announced that it closed a brokered private placement of 340,000 units at a price of $0.50 per unit raising gross proceeds of $170,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of $0.625 per share. The warrants are 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 10,400 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the private placement.

The grant date fair value of the warrants was estimated at $79,902 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.32%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 154.7%. Share issue costs related to this private placement were $10,816 of which $5,047 was allocated to warrants.

On November 23, 2012 the Company announced that it closed a brokered private placement of 126,200 units at a price of $0.50 per unit raising gross proceeds of $63,100. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of $0.625 per share. The warrants are 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 $648 and issued 1,296 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the private placement.

The grant date fair value of the warrants was estimated at $29,036 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.30%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 154.6%. Share issue costs related to this private placement were $1,218 of which $560 was allocated to warrants.

(in Canadian dollars)

13. SHARE CAPITAL (continued)

iii) Equity Reserve – Warrants

The number of warrants outstanding as at December 31, 2012 and December 31, 2011 and changes during the years ended December 31, 2012 and 2011 is presented below:

	Number of Warrants	Estimated Grant Date Fair Value	Weighted Average Exercise Price/Share
	#	$	$
Balance, December 31, 2010	1,216,335	236,183	1.50
Issued February 2, 2011 (Note 13(ii))	580,000	49,997	1.00
Expired February 26, 2011	(193,500)	(54,809)	1.50
Expired August 6, 2011	(826,045)	(146,508)	1.45
Expired August 31, 2011	(196,790)	(34,866)	1.45
Balance, December 31, 2011	580,000	49,997	1.00
Issued July 18, 2012 (see Note 13(ii))	200,000	45,418	1.00
Issued October 24, 2012 (see Note 13(ii))	350,400	79,902	0.625
Issued November 23, 2012 (see Note 13(ii))	127,496	29,036	0.625
Balance, December 31, 2012	1,257,896	204,353	0.86

Warrants outstanding and exercisable as at December 31, 2012 are as follows:

Number of Warrants	Exercise Price	Estimated Grant Date Fair Value	Expiry Date
#	$/ Share	$	
580,000	1.00	49,997	February 2, 2013*
200,000	1.00	45,418	July 18, 2017
350,400	0.625	79,902	October 24, 2017
127,496	0.625	29,036	November 23, 2017
1,257,896		204,353	

*Expired subsequent to December 31, 2012.

The weighted average grant date fair value of the warrants issued during the year ended December 31, 2012 is $0.23 (December 31, 2011: $0.08). The weighted average contractual life remaining for the warrants at December 31, 2012 is 2.60 years (2011: 1.09 years).

(in Canadian dollars)

13. 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, 2012 and December 31, 2011 and changes during the years then ended is as follows:

	Number of Options #	Number of Shares Issuable on Exercise of Options #	Weighted Average Exercise Price/Share $
Options outstanding as at December 31, 2010	726,000	891,000	1.85
Granted	115,000	115,000	1.00
Expired	(74,167)	(222,500)	2.86
Options outstanding as at December 31, 2011	766,833	783,500	1.44
Granted	667,250	667,250	1.00
Expired	(174,333)	(191,000)	2.17
Options outstanding as at December 31, 2012	1,259,750	1,259,750	1.10

On March 4, 2011, the Company granted stock options to acquire 75,000 common shares. The stock options were granted to officers and a director of the Company at an exercise price of $1.00 per share for a term of 5 years from date of grant. The stock options vest as to 1/3 on September 2, 2011, 1/3 on March 4, 2012 and 1/3 on September 2, 2012.

On August 19, 2011, the Company granted stock options to acquire 40,000 common shares. The stock options were granted to an officer of the Company at an exercise price of $1.00 per share for a term of 5 years from date of grant. The stock options vested 100% on date of grant.

13. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

On March 23, 2012, the Company granted stock options to acquire 467,500 common shares. The stock options were granted to directors, officers and employees at an exercise price of $1.00 per share for a term of 5 years from the date of grant, and shall vest on the basis of 207,500 options immediately, 130,000 after 6 months, and 130,000 options after 12 months.

On May 17, 2012, the Company granted stock options to purchase up to 46,250 common shares. The stock options were granted to an employee at an exercise price of $1.00 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 30, 2012, the Company granted stock options to acquire 26,000 common shares. The stock options were granted to a director and an employee at an exercise price of $1.00 per share for a term of 5 years from the date of grant, and shall vest on the basis of 12,666 options immediately, 6,667 in 6 months, and 6,667 options in 12 months.

On August 29, 2012, the Company granted stock options to acquire 46,250 common shares. The stock options were granted to an employee at an exercise of $1.00 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 35,000 common shares. The stock options were granted to directors and an officer at an exercise of $1.00 per share for a period of 5 years from the date of grant, with all options vesting immediately.

On November 14, 2012, the Company granted stock options to acquire 46,250 common shares. The stock options were granted to an employee at an exercise of $1.00 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.

The weighted average grant date fair value of the stock options issued during the year ended December 31, 2012 is $0.56 (December 31, 2011: $0.30). The fair value of the options granted during the year ended December 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% (2011: 0%), expected volatility of 146.1% - 154.6% (2011: 127% - 128%), risk free rates of return of 1.23% - 1.53% (2011: 1.23% - 2.43%) and an expiry period of 5 years (2011: 5 years).

(in Canadian dollars)

13. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

Stock options issued and outstanding as at December 31, 2012 are as follows:

Number of Options Outstanding	Number of Options Vested and Exercisable	Effective Exercise Price	Expiry Date
#	#	$/share	
60,000	60,000	2.00	April 4, 2013*
50,000	50,000	2.00	June 25, 2013
25,000	25,000	2.00	August 28, 2013
125,000	125,000	1.00	August 31, 2014
50,000	50,000	1.00	November 16, 2014
42,500	42,500	1.00	March 3, 2015
110,000	93,333	1.00	August 12, 2015
15,000	10,000	1.00	November 10, 2015
75,000	75,000	1.00	March 4, 2016
40,000	40,000	1.00	August 19, 2016
467,500	337,500	1.00	March 23, 2017
46,250	23,125	1.00	May 17, 2017
26,000	19,333	1.00	May 30, 2017
81,250	46,563	1.00	August 29, 2017
46,250	-	1.00	November 14, 2017
1,259,750	997,354		

*Expired subsequent to December 31, 2012.

The total number of common shares that are issuable pursuant to stock options that are exercisable as at December 31, 2012 is 997,354 (2011: 633,500). The weighted average exercise price of these options as at December 31, 2012 is $1.12 (2011: $1.57).

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at December 31, 2012 is 2.95 years and 3.22 years, respectively (2011: 2.27 years and 2.55 years).

13. 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, 3,870,584 common shares of the Company were subject to escrow. 409,696 escrowed shares were released over a period of 36 months ending on March 31, 2009. 3,460,888 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 346,089 escrowed shares were released. At December 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, 2,406,162 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 193,838 common shares to Adagio shareholders. As at December 31, 2012, a total of 2,212,324 (2011 – 2,406,162) common shares remain in escrow. All released common shares are subject to a 4-month hold period.

Subsequent to December 31, 2012, the Company completed two closings of a short form prospectus offering for gross proceeds $7,317,160 (See Note 19, Subsequent Events). As a result, all the common shares held under the corporate escrow have been released, with only 50% of the shares under the executive escrow agreement still in escrow. A total of 699,530 shares are still under executive escrow.

14. RESEARCH GRANT

On August 8, 2012, the Company announced that it had been awarded a grant of USD $947,925 (CDN $942,977) 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 (CDN $289,516) was received on September 20, 2012. The second milestone payment of USD $412,087 (CDN $411,057) was received on January 30, 2013, subsequent to December 31, 2012. The Company expects to receive the final milestone payment of USD $238,012 and complete this research in Q3 2013.

(in Canadian dollars)

15. 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 years ended December 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:

	2012	2011
Management Fees/Salary paid to President and CEO (OG&A)	$ 225,000	$ 144,000
Salaries to other key management (OG&A)	287,750	245,000
Director fees (OG&A)	37,700	53,500
Special committee fees (Intangible assets)	-	62,963
Consulting services (R&D)	120,708	179,695
	$ 671,158	$ 685,158

At December 31, 2012, included in accounts payable and accrued liabilities is $649,504 (December 31, 2011: $439,877) due to officers and directors of the Company (See Note 11). 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 year ended December 31, 2012 is $213,500 (December 31, 2011: $34,000).

On September 29, 2011, the Company completed a financing of secured debentures in the aggregate amount of $488,503 (See Note 12). Included in this total, was a $28,735 debenture from a former director who also received 10,000 common shares at a price of $0.30 per share.

As at December 31, 2012, $125,915 (December 31, 2011: $84,472) of the interest-bearing debentures are due to a former director of the Company. Subsequent to December 31, 2012, these debentures were exchanged for shares and warrants (See Note 19, Subsequent Events).

See Note 7, Acquisition of Adagio Pharmaceuticals Ltd., Related Party Transaction.

See Note 13(ii) for related party unit subscriptions.

See Note 17, Commitments and Contingent Liabilities.

(in Canadian dollars)

16. SUPPLEMENTARY CASH FLOW INFORMATION

	2012	2011
	$	$
Change in accrued intangible assets	14,780	137,988
Value of shares for acquisition of intangible asset (Note 7)	-	520,000
Change in accrued deferred financing costs (Note 8)	257,039	-
Subscription receivable	5,000	-
Compensation warrants issued to brokers	6,186	-

17. 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 $441,000 plus any earned bonus amounts owing, 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 $97,368 and will be required to issue 373,316 stock options priced at the then fair market value, but not less than $0.10 per share. On March 1, 2013, the Company raised $6,008,000 as part of a short form prospectus offering, triggering the issuance of these stock options (See Note 19(b), Subsequent Events).

On November 15, 2009, the former CEO resigned and is due $216,500 over a twelve month period, contingent upon the Company raising additional equity and at the discretion of the Board. As Board approval has not yet been provided, the contingent payment has not been reflected in these consolidated financial statements. Subsequent to December 31, 2012, the Company completed two closings of a short form prospectus offering for gross proceeds $7,317,160 (See Note 19, Subsequent Events). As a result, this amount became payable at that time.

During the years ended December 31, 2012, 2011 and 2010 the Company awarded bonuses of $177,201, $189,350 and $179,052, respectively, to certain officers and employees of the Company, with payment being contingent upon the Company raising additional equity and at the discretion of the Board. As Board approval has not yet been provided, the contingent payments have not been reflected in these consolidated financial statements. Subsequent to December 31, 2012, the Company completed two closings of a short form prospectus offering for gross proceeds of $7,317,160 (See Note 19, Subsequent Events). As a result, these amounts became payable at that time.

See Note 7, Acquisition of Adagio Pharmaceuticals Ltd., Terms of Transaction for future commitments.

See Note 12, Debentures Payable.

(in Canadian dollars)

18. INCOME TAXES

a) Provision for income taxes:

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 26.5% (2011 – 29%) are as follows:

	December 31, 2012	December 31, 2011
Loss before income taxes	$ (3,063,806)	$(2,847,247)
Expected income tax recovery	$ (812,000)	$ (826,000)
Adjustments to benefit resulting from:		
Change in income tax rates	331,000	114,000
Share-based compensation	89,000	22,000
Share issue costs	(25,000)	-
Gain on extension of debenture maturity dates	(60,000)	-
Other	32,000	1,000
	$ (445,000)	$ (689,000)
Unrecognized tax benefits	445,000	689,000
	$ -	$ -

b) The effect of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets:		
Share issuance costs	$ 26,000	$ 92,000
Equipment	5,000	4,000
Non-capital loss carry forwards	3,810,000	3,300,000
	$ 3,841,000	$ 3,396,000
Unrecognized deferred tax assets	(3,841,000)	(3,396,000)
	$ -	$ -

c) The Company has approximately $15,231,000 of non-capital losses as at December 31, 2012, which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

Available To	Amount ($)
2013	501,000
2014	1,596,000
2025	371,000
2026	1,730,000
2027	2,048,000
2028	1,508,000
2029	1,524,000
2030	1,178,000
2031	1,858,000
2032	2,917,000
	15,231,000

19. SUBSEQUENT EVENTS

(a) On February 2, 2013, warrants to acquire 580,000 common shares of the Company expired unexercised.

(b) On March 1, 2013 the Company announced that it completed its short form prospectus offering (“the Offering”) of 13,061,688 units at a price of $0.46 per unit for aggregate gross proceeds of $6,008,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of $0.575 per share from the closing date for a period of 60 months, except that the warrants will be cancelled if they are not exercised within 30 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 $1.38 or greater for 20 consecutive trading days. The Company paid the Agent a work fee of $87,500 plus applicable taxes and has agreed to reimburse the Agent for certain expenses incurred in connection with the Offering. The Company also paid the Agent a cash commission of $47,088 and issued 102,365 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the Offering. In addition, the Company paid other registered dealers and brokers cash commissions of $117,500 and issued 255,434 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the Offering.

In addition, the Company completed a share consolidation of the Company’s issued and outstanding common shares concurrent on the basis of one (1) new common share for every ten (10) common shares issued and outstanding.

Concurrent with the closing of the Offering, the Company and holders of the Series A to E debentures agreed to convert $4,031,406 in debt for common shares and warrants. This resulted in 8,761,399 common shares and 4,380,700 debenture warrants being issued. Each debenture warrant entitles the holder to acquire one common share at a price of $0.575 for a period of 24 months after the closing date. The 8,761,399 common shares issued are subject to a hold period to July 2, 2013.

(c) Effective March 1, 2013, the Company granted stock options to acquire 373,316 common shares. The stock options were granted to the President and CEO of the Company at an exercise price of $0.46 per share for a period of 5 years from the date of the grant, and vested immediately.

(d) On March 21, 2013 the Company announced that it completed a second closing of the Offering. The Company issued 2,846,000 units at a price of $0.46 per unit for aggregate gross proceeds of $1,309,160. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at an exercise price of $0.575 per share from the closing date for a period of 60 months, except that the warrants will be cancelled if they are not exercised within 30 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 $1.38 for 20 consecutive trading days. The Company paid to the Agent a cash commission of $33,064 and issued 71,880 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the Offering. In addition, the Company paid other registered dealers and brokers cash commissions of $71,668 and issued 155,800 non-transferable compensation warrants, each exercisable to purchase one common share on the same terms as the warrants issued in the Offering. The total gross proceeds from the first and second closings of the Offering is $7,317,160. Additional closings of the Offering may occur as the Offering will be discontinued on the earlier of the date that the maximum offering of $8,000,000 has been subscribed for and May 21, 2013.

Following the close of the Offering, the Company released from escrow 1,512,794 common shares to Adagio shareholders. As at April 24, 2013, a total of 699,530 common shares remain in escrow (see Note 7 and 13(v)).

(e) On April 4, 2013, 60,000 stock options held by current and former officers, directors and employees of the Company expired unexercised.