CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Financial Statements
For the Nine Months Ended September 30, 2013

(Expressed in Canadian Dollars)

Unaudited

CYNAPSUS THERAPEUTICS INC.
Condensed Interim Consolidated Statements of Financial Position

UNAUDITED
(in Canadian dollars)

	NOTES	September 30, 2013	December 31, 2012
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	7	3,409,766	50,401
Deferred financing costs		-	263,401
Prepaid expenses and other current assets		134,543	62,515
Total current assets		3,544,309	376,317
Non-current assets			
Equipment	8	14,396	5,670
Intangible assets	9, 14	742,703	786,943
Total assets		4,301,408	1,168,930
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10,14	1,725,065	2,119,438
Debentures payable	11	-	4,059,693
Deferred grant proceeds	13	199,456	-
Total current liabilities		1,924,521	6,179,131
SHAREHOLDERS’ EQUITY (DEFICIENCY)			
Share capital	12	16,156,398	10,528,756
Equity reserves			
Warrants	12	4,047,947	204,353
Share-based payments	12	918,279	889,215
(Deficit)		(18,745,737)	(16,632,525)
Total shareholders’ equity (deficiency)		2,376,887	(5,010,201)
Total liabilities and shareholders’ equity (deficiency)		4,301,408	1,168,930

COMMITMENTS AND CONTINGENCIES (Note 16)
GOING CONCERN (Note 2)

APPROVED ON BEHALF OF 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, 2013**	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
		$	**$**	**$**	**$**
EXPENSES					
Operating, general and administrative		736,636	214,310	1,788,240	993,083
Research and development		404,110	104,731	715,572	478,530
Share-based payments	12	109,975	98,886	448,088	299,017
Amortization of intangible assets	9	14,747	14,748	44,240	44,240
Depreciation of equipment	8	658	501	1,391	1,502
Foreign exchange loss (gain)		6,415	(17,072)	27,789	(17,126)
(Recovery) on scientific research		(15,000)	(10,000)	(29,232)	(66,219)
Loss before other loss (income)		1,257,541	406,104	2,996,088	1,733,027
OTHER LOSS (INCOME)					
Research grant	13	-	(61,600)	(211,601)	(61,600)
Other income		-	(3,300)	(2,200)	(9,900)
Severance and bonus accruals	10, 14	-	-	762,103	-
Debenture accretion and interest costs	11	-	298,625	187,975	798,927
(Gain) on extension of debenture maturity dates		-	-	-	(225,263)
(Gain) on debentures exchange	11	-	-	(1,153,000)	-
Loss on disposal of equipment		-	-	1,325	-
Other interest and related charges		83	1,294	1,543	1,458
Loss and comprehensive loss for the period		1,257,624	641,123	2,582,233	2,236,649
Loss per share - basic and diluted	12	0.03	0.05	0.08	0.17
Weighted average number of shares outstanding – basic and diluted		38,884,009	13,709,592	33,253,733	13,508,453

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
	$	$	$	$	$
Balance as at December 31, 2012	**10,528,756**	**204,353**	**889,215**	**(16,632,525)**	**(5,010,201)**
Prospectus offering, first closing, net of transaction costs including broker warrants	2,908,293	2,619,761	-	-	5,528,054
Prospectus offering, second closing, net of transaction costs including broker warrants	580,013	556,079	-	-	1,136,092
Debentures exchange, net of transaction costs	2,139,336	717,751	-	-	2,857,087
Expiry of warrants	-	(49,997)	-	49,997	-
Share-based payments	-	-	448,088	-	448,088
Expiry of share-based payments	-	-	(419,024)	419,024	-
Loss for the period	-	-	-	(2,582,233)	(2,582,233)
Activity for the period	5,627,642	3,843,594	29,064	(2,113,212)	7,387,088
Balance as at September 30, 2013	**16,156,398**	**4,047,947**	**918,279**	**(18,745,737)**	**2,376,887**
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 issuances, 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)**

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

Condensed Interim Consolidated Statements of Cash Flows

UNAUDITED
(in Canadian dollars)

		For the three months ended		For the nine months ended	
	NOTES	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
		$	$	$	$
Cash provided by (used in)					
Operating activities					
Loss for the period		(1,257,624)	(641,123)	(2,582,233)	(2,236,649)
Items not affecting cash:					
Share-based payments	12	109,975	98,886	448,088	299,017
Amortization of intangible assets	9	14,747	14,748	44,240	44,240
Depreciation of equipment	8	658	501	1,391	1,502
Debenture accretion expense	11	-	206,785	132,428	532,322
Accrual of debenture interest expense	11	-	91,840	55,547	266,605
(Gain) on debentures exchange	11	-	-	(1,153,000)	-
(Gain) on extension of debenture maturity dates		-	-	-	(225,263)
		(1,132,244)	(228,363)	(3,053,539)	(1,318,226)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		123,329	7,607	(72,028)	11,096
Change in accounts payable and accrued liabilities		65,628	104,893	(137,333)	205,990
Deferred grant proceeds	13	-	227,916	199,456	227,916
Net cash (used in) generated from operating activities		(943,287)	112,053	(3,063,444)	(873,224)
Investing activities					
Purchase of equipment	8	-	-	(11,442)	-
Disposal of equipment	8	-	-	1,325	-
Net cash (used in) investing activities		-	-	(10,117)	-
Financing activities					
Gross proceeds from issuance of shares and warrants	12	-	100,000	7,317,536	100,000
Commissions and share issuance costs	12	-	-	(667,186)	(12,800)
Proceeds from issuance of debentures and bonus shares	11	-	-	-	936,000
Partial repayment of debentures (principal and interest)	11	-	-	(217,424)	(157,600)
Net cash generated from financing activities		-	100,000	6,432,926	865,600
(Decrease) increase in cash and cash equivalents		(943,287)	212,053	3,359,365	(7,624)
Cash and cash equivalents, beginning of period		4,353,053	75,135	50,401	294,812
Cash and cash equivalents, end of period		3,409,766	287,188	3,409,766	287,188

SUPPLEMENTARY CASH FLOW INFORMATION (Notes 7 and 15)
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, and traded in the U.S. on OTCQX marketplace. 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 November 20, 2013, the Board of Directors approved and authorized the condensed interim consolidated financial statements for the period ended September 30, 2013.

2. BASIS OF PREPARATION AND GOING CONCERN

The financial statements consolidate the financial statements of Cynapsus and its wholly-owned subsidiary, Adagio Pharmaceuticals Ltd. ("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, 2012 and December 31, 2011, and for the years ended December 31, 2012 and 2011. The policies set out in the Company's annual consolidated financial statements were consistently applied to all the periods presented in those condensed interim consolidated financial statements unless otherwise noted below.

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

In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the nine month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

3. NEW ACCOUNTING POLICIES

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 adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

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. The adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

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. The adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

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. The adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

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 adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

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 adoption of this standard on January 1, 2013, had no impact on the financial statements of the Company.

4. FUTURE ACCOUNTING CHANGES

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning 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 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.

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.

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 condensed interim 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. 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.

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

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.

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 is 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 16, Commitments and Contingent Liabilities.

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 effects on the Company's financial performance. There were no changes in the Company's approach to risk management during the nine months ended September 30, 2013.

(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, 2013, the Company had cash and cash equivalents of $3,409,766 and other current assets of $134,543 (December 31, 2012 - $50,401 and $325,916) to settle current liabilities of $1,924,521 (December 31, 2012 - $6,179,131). 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 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 $34,000.

6. RISK MANAGEMENT (continued)

Market risk

(i) Interest rate risk

The Company had a cash and cash equivalents balance of $3,409,766 as at September 30, 2013. 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.

(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.

The Company has designated its cash equivalents as held-for-trading, measured at fair value. Cash is classified as loans and receivables, which is 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.

The Company's financial instruments that are carried at fair value consist of cash equivalents that do not have quoted market prices. They have been classified as level 2 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, 2013. The Company and its subsidiary are not subject to externally imposed capital requirements.

7. CASH AND CASH EQUIVALENTS

	September 30, 2013	December 31, 2012
	$	$
Cash in account at a Canadian Chartered Bank	3,379,766	50,401
Cash in Guaranteed Investment Certificates issued by a Canadian Chartered Bank	30,000	-
	3,409,766	50,401

(in Canadian dollars)

8. EQUIPMENT

The following is a summary of equipment as at September 30, 2013 and December 31, 2012:

	Computer Equipment	Furniture and Fixtures	Total
	$	$	$
Cost			
Cost at December 31, 2012	15,270	9,318	24,588
Purchases	11,442	-	11,442
Disposals	(9,508)	-	(9,508)
Balance at September 30, 2013	17,204	9,318	26,522
Accumulated depreciation			
Accumulated depreciation at December 31, 2012	11,958	6,960	18,918
Depreciation	1,037	354	1,391
Disposals	(8,183)	-	(8,183)
Accumulated depreciation at September 30, 2013	4,812	7,314	12,126
Net book value			
Net book value as at December 31, 2012	3,312	2,358	5,670
Net book value as at September 30, 2013	12,392	2,004	14,396

9. INTANGIBLE ASSETS

The following is a summary of intangible assets as at September 30, 2013 and December 31, 2012:

	APL-130277 Patents	License Agreement	Total
	$	$	$
Cost			
Original cost at December 31, 2012 and September 30, 2013	718,150	200,000	918,150
Accumulated Amortization			
Balance at December 31, 2012	47,876	83,331	131,207
Amortization	35,908	8,332	44,240
Balance at September 30, 2013	83,784	91,663	175,447
Net book value			
Net book value as at December 31, 2012	670,274	116,669	786,943
Net book value as at September 30, 2013	634,366	108,337	742,703

(in Canadian dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of accounts payable and accrued liabilities as at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	$	$
Trade payables	716,353	1,091,746
Due to related parties (Note 14)	196,385	649,504
Bonus accruals to related parties (Note 14)	529,068	-
Other accrued liabilities	283,259	378,188
	1,725,065	2,119,438

11. DEBENTURES PAYABLE

On March 1, 2013, holders of $4,030,244 in Series A to Series E debentures agreed to an exchange of debt for shares and warrants, with the remaining $217,424 repaid (See Note 12(ii)). The fair value of the common shares and warrants issued was estimated at the time of grant to be $2,154,428 and $722,816 respectively (see Note 12(ii)). This resulted in a gain on the settlement of the debentures of $1,153,000. The related shares and warrants issue cost was $20,157. As a result, $2,139,336 was recorded in share capital and $717,751 was recorded in equity reserves – warrants for the nine months ended September 30, 2013.

The changes in the value of debentures from December 31, 2012 to September 30, 2013 were as follows:

	Debentures
	$
Balance, December 31, 2012	4,059,693
Debenture accretion expense	132,428
Accrual of debenture interest expense	55,547
Issuance of shares in exchange for debentures	(2,154,428)
Issuance of warrants in exchange for debentures	(722,816)
Gain on exchange of debentures	(1,153,000)
Repayment of Series A1, A2, B and E5 debentures	(217,424)
Balance, September 30, 2013	-

(in Canadian dollars)

12. 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, 2012	14,214,922
Shares issued for cash on March 1, 2013	13,061,688
Shares issued for debt on March 1, 2013	8,761,399
Shares issued for cash on March 21, 2013	2,846,000
Balance, September 30, 2013	38,884,009

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 $6,008,376. 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 reimbursed 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.

The grant date fair value of the warrants and broker warrants were estimated at $2,802,779 and $76,927 respectively, using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.19%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 153%. The issue cost allocated to warrants was $259,945.

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. All common shares, options warrants and per share amounts have been restated to give retrospective effect to the share consolidation.

Concurrent with the closing of the Offering, the Company and holders of the Series A to E debentures agreed to convert $4,030,244 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 grant date fair value of the warrants was estimated at $722,816 using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 0.97%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 172%. The issue cost allocated to warrants was $5,065.

(in Canadian dollars)

12. SHARE CAPITAL (continued)

ii) Issued and outstanding common shares (continued)

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 grant date fair value of the warrants and broker warrants were estimated at $610,695 and $48,951 respectively, using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.23%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 153 %. The issue cost allocated to warrants was $103,567.

iii) Equity Reserve – Warrants

The number of warrants outstanding as at September 30, 2013 and December 31, 2012 is presented below:

	Number of Warrants	Estimated Grant Date Fair Value	Weighted Average Exercise Price/Share
	#	$	$
Balance, December 31, 2012	1,257,896	204,353	0.860
Expired February 2, 2013	(580,000)	(49,997)	1.000
Issued for cash on March 1, 2013 (net of costs)	13,061,688	2,542,834	0.575
Issued as broker compensation on March 1, 2013	357,799	76,927	0.575
Issued for debt on March 1, 2013 (net of costs)	4,380,700	717,751	0.575
Issued for cash on March 21, 2013 (net of costs)	2,846,000	507,128	0.575
Issued as broker compensation on March 21, 2013	227,680	48,951	0.575
Balance, September 30, 2013	21,551,763	4,047,947	0.580

(in Canadian dollars)

12. SHARE CAPITAL (continued)

iii) Equity Reserve – Warrants (continued)

Warrants outstanding and exercisable as at September 30, 2013 are as follows:

Number of Warrants	Exercise Price	Estimated Grant Date Fair Value	Expiry Date	Description
#	$/ Share	$		
4,380,700	0.575	717,751	March 1, 2015	Debenture exchange
200,000	1.000	45,418	July 18, 2017	Private placement
350,400	0.625	79,902	October 24, 2017	Private placement
127,496	0.625	29,036	November 23, 2017	Private placement
13,419,487	0.575	2,619,761	March 1, 2018	Prospectus offering, first closing
3,073,680	0.575	556,079	March 1, 2018	Prospectus offering, second closing
21,551,763		4,047,947		

The weighted average grant date fair value of the warrants issued during the period ended September 30, 2013 is $0.19 (year ended December 31, 2012: $0.23). The weighted average contractual life remaining for the warrants at September 30, 2013 is 3.80 years (December 31, 2012: 2.60 years).

(in Canadian dollars)

12. 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. As at September 30, 2013, there are a total of 2,691,316 options outstanding, representing 6.9% 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 September 30, 2013 and December 31, 2012, and changes during the period ended September 30, 2013 is as follows:

	Number of Options #	Weighted Average Exercise Price/Share $
Options outstanding as at December 31, 2012	1,259,750	1.10
Granted	1,790,316	0.38
Forfeited	(34,688)	1.00
Expired	(324,062)	1.42
Options outstanding as at September 30, 2013	2,691,316	0.58

On 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.

On May 1, 2013, the Company granted stock options to acquire 1,392,000 common shares. The stock options were granted to officers, directors, employees and consultants of the Company at an exercise price equal to $0.36 per share and expire 5 years from the date of grant. One third of the options granted vested immediately, one-third will vest in 6 months and one-third will vest in 12 months.

On May 28, 2013, the Company granted stock options to acquire 25,000 common shares. The stock options were granted to a director of the Company at an exercise price of $0.31 per share for a period of 5 years from the date of the grant. One third of the options granted vested immediately, one-third will vest in 6 months and one-third will vest in 12 months.

(in Canadian dollars)

12. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

The weighted average grant date fair value of the stock options issued during the period ended September 30, 2013 is $0.31 (December 31, 2012: $0.56). The fair value of the options granted during the period ended September 30, 2013 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 151% to 161%, risk free rates of return of 1.10% to 1.35% and an expected life of 5 years.

Stock options issued and outstanding as at September 30, 2013 are as follows:

Number of Options Outstanding	Number of Options Vested and Exercisable	Effective Exercise Price	Expiry Date
#	#	$/share	
95,000	95,000	1.00	August 31, 2014
50,000	50,000	1.00	November 16, 2014
27,500	27,500	1.00	March 3, 2015
107,500	107,500	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
430,000	430,000	1.00	March 23, 2017
26,000	26,000	1.00	May 30, 2017
35,000	35,000	1.00	August 29, 2017
373,316	373,316	0.46	March 1, 2018
1,392,000	464,000	0.36	May 1, 2018
25,000	8,334	0.31	May 28, 2018
2,691,316	1,741,650		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2013 is 1,741,650 (December 31, 2012 : 997,354). The weighted average exercise price of these options as at September 30, 2013 is $0.71 (December 31, 2012: $1.12).

12. SHARE CAPITAL (continued)

iv) Reserve – Share based payments (continued)

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at September 30, 2013 is 3.59 years and 3.94 years, respectively (December 31, 2012: 2.95 years and 3.22 years).

v) Escrow shares

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. In March 2013, the Company completed two closings of a short form prospectus offering for gross proceeds of $7,317,160. 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. As at September 30, 2013, a total of 699,530 shares are still under executive escrow, which are to be released in two equal instalments on each of December 22, 2013 and December 22, 2014, repectively. All released common shares are subject to a 4-month hold period. 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.

13. RESEARCH GRANT

On August 8, 2012, the Company announced that it had been awarded a grant of USD $947,925 ($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 ($289,516) was received on September 20, 2012 and was fully used by December 31, 2012. The second milestone payment of USD $412,087 ($411,057) was received on January 30, 2013. As at September 30, 2013, $211,601 of the second milestone payment has been used, and $199,456 is recorded as deferred grant proceeds. The Company expects to receive the final milestone payment of USD $238,012 and complete this research in Q4 2013.

(in Canadian dollars)

14. 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, 2013 and 2012 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,	
	2013	2012	2013	2012
Salary and benefits to President and CEO (OG&A)	$ 82,312	$ 51,923	$ 227,268	$ 164,423
Salaries to other Officers and other key management (OG&A)	125,518	66,404	322,186	210,279
Consulting fees to other key management (R&D)	-	50,583	15,020	93,678
Bonuses to Officers and other key management	-	-	529,068	-
Director fees (OG&A)	58,750	9,180	84,100	26,530
	$ 266,580	$ 178,090	$ 1,177,642	$ 494,910

At September 30, 2013, included in accounts payable and accrued liabilities is $725,453 (December 31, 2012: $649,504) due to officers and directors of the Company (See Note 10). These amounts are unsecured and non-interest bearing with no fixed terms of repayment.

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, of which a total of $529,068 was awarded to officers and other key management, with payment being contingent upon the Company raising additional equity and at the discretion of the Board. In March 2013, the Company completed two closings of a short form prospectus offering for gross proceeds of $7,317,160 (See Note 12(ii)). As a result, these bonus amounts became payable at that time, and have been accrued in these condensed interim consolidated financial statements (See Note 10). These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

The Company had a stock option commitment to the President and CEO, contingent upon the Company raising a cumulative amount of $5 million in equity after November 16, 2009. Once raised, the Company was 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 12(iv)).

The grant date fair value of share-based payments issued to related parties during the three and nine months periods ended September 30, 2013 was $Nil and $497,503 (September 30, 2012: $21,000 and $259,000), of which $Nil and $219,344 vested in the 2013 respective periods (September 30, 2012: $21,000 and $216,833).

(in Canadian dollars)

15. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Issuance of shares and warrants in exchange for debentures	-	-	(2,877,244)	-
Value of warrants issued for commissions (note 12)	-	-	125,878	-
Value of shares issued for debenture bonus shares	-	-	-	224,640
Change in accrued deferred financing costs	-	-	(257,039)	-

16. 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 $770,000 and are all payable within one year.

The Company is committed to a minimum rental under a lease for its premises, which will expire on April 30, 2014. As at September 30, 2013, minimum rental commitments remaining under this lease are $70,875, all due within one year.

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 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 remaining 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 study. This study has not been started as of September 30, 2013; 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. This study has not been started as of September 30, 2013.

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.