CYNAPSUS THERAPEUTICS INC.

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")
OF OPERATING RESULTS AND FINANCIAL CONDITION
FOR THE YEAR ENDED DECEMBER 31, 2013

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Cynapsus Therapeutics Inc. ("Cynapsus", or the "Company") for the year ended December 31, 2013 and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013. The financial statements and related notes of Cynapsus have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at www.sedar.com.

This MD&A reports our activities through April 8, 2014 unless otherwise indicated. All amounts are expressed in Canadian (CDN) dollars, which is the functional currency of the Company, unless otherwise indicated.

On February 28, 2013, 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.

Cautionary Statement Regarding Forward-Looking Information

Some of the statements contained in this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cynapsus to be materially different from those expressed or implied by such forward-looking statements, including but not limited to those risks and uncertainties relating to Cynapsus' business disclosed under the heading "Risk Factors" in the Company's Annual Information Form dated March 26, 2014, under the heading "Risk and Uncertainties" in this "Management's Discussion and Analysis of Operating Results and Financial Condition" for the year ended December 31, 2013, and its other filings with the various Canadian securities regulators which are available online at www.sedar.com. Although Cynapsus has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those

anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Cynapsus does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

Company Overview

Cynapsus is a specialty pharmaceutical company developing a convenient and easy to use sublingual (oral) thin film strip for the acute rescue of "off" motor symptoms of Parkinson's disease. Over one million people in the U.S. and an estimated 5 million people globally suffer from Parkinson's disease. Parkinson's disease is a chronic and progressive neurodegenerative disease that impacts motor activity, and its prevalence is increasing with the aging of the population. Based on a recent study and the results of the Company's Global 500 Neurologists Survey, it is estimated that between 25 percent and 50 percent of patients experience "off" episodes in which they have impaired movement or speaking capabilities. Current medications only control the disease's symptoms, and most drugs become less effective over time as the disease progresses.

Cynapsus' drug candidate, APL-130277, is an easy-to-administer, fast-acting reformulation of apomorphine, which is the only approved drug (in the United States, Europe, Japan and other countries) to rescue patients from "off" episodes. Apomorphine is currently primarily available as an injection, which can be inconvenient and painful. Cynapsus is focused on maximizing the value of APL-130277 by completing pivotal studies in advance of a New Drug Application ("NDA") expected to be submitted in 2016.

Drug Development

Cynapsus is currently focused on clinical development and maximizing the commercialization potential of APL-130277, primarily through a semi-virtual outsourcing business model integrating a leading team of formulation developers, active pharmaceutical ingredient ("API") suppliers, regulatory and intellectual property experts, neuroscientists and central nervous system researchers. To date, pilot proof-of-concept Phase 1 human volunteer clinical trials have been conducted by a Contract Research Organization in Asia. It is expected that CROs in Asia, the U.S. and/or Europe will be selected to manage future clinical trials.

APL-130277 is being developed under 505(b)(2) of the Federal Food, Drug and Cosmetic Act ("FFDCA") of the United States. In April 2011, the Company met with the U.S. Food and Drug Administration ("FDA") in a pre-IND ("Investigational New Drug") meeting to propose a regulatory strategy toward achieving approval of APL-130277. The FDA accepted that APL-130277 could achieve approval either by demonstrating bioequivalence or through efficacy trials. The FDA noted in meeting minutes that labelling is not required to match that of the reference listed drug, but that any new claims would require adequate and controlled clinical trials. The FDA also noted that efficacy trials would need to be in patients that are similar to those for whom the treatment is intended.

Parkinson's Disease

Parkinson's disease is a chronic, progressive, neurodegenerative disease that results from the death of neurons in the region of the brain that control movement. This degeneration creates a shortage of an important brain signalling chemical, or neurotransmitter, known as dopamine, rendering patients unable to initiate movements in a normal manner. Parkinson's disease is characterized by a number of symptoms, including tremors, rigidity, slowness of movement, impaired balance and difficulty swallowing, as well as significant non-motor disturbances, including mood disorders, fatigue and dementia. The severity of Parkinson's disease symptoms progressively worsens over time.

Patients with Parkinson's disease have trouble dressing, walking, talking or completing simple tasks that require coordinated muscle movement. Treatment paradigms exist to account for the progression of the disease and wearing-off phenomena that eventually leave patients with disabling motor and non-motor fluctuations, as well as involuntary movements. In general, 30-50% experience wearing off 5 years after initiating levodopa therapy and this number increases by about 5-10% per year after initiating levodopa to reach upwards of 70% after 9 or more years. The cause of Parkinson's disease remains undetermined. There is no cure, and the need for improvement over the current treatments for symptoms is significant.

Parkinson's disease typically affects people 60 years of age or older. Parkinson's disease affects more than 1 million patients in the U.S. and an estimated 5 million worldwide. The Company expects the Parkinson's disease drug market to grow significantly during the next several decades because of the aging "baby-boomer" worldwide population and the prolonged survival of Parkinson's disease patients.

Currently there are several approaches to the treatment of Parkinson's disease: dopamine stimulation, dopamine replacement, and drugs that inhibit the breakdown of dopamine. Dopamine stimulation strategies, referred to as dopamine agonists, seek to stimulate the dopamine receptor in place of naturally released dopamine. Dopamine replacement strategies are designed to supplement normally produced levels of dopamine. This is accomplished through the use of levodopa, a dopamine prodrug which is broken down in the body to produce dopamine, the natural neurotransmitter involved in motor function. Drugs that inhibit the breakdown of dopamine include dopamine decarboxylase inhibitors ("DDIs"), catechol-O-methyl transferase ("COMT") inhibitors, and monoamine oxidase B ("MAO-B") inhibitors.

In addition to the above approaches, neurosurgery, brain stimulation devices or cell implants, are reserved for late-stage Parkinson's patients that no longer respond to pharmacotherapy.

Existing therapeutic approaches have a number of limitations. Dopamine replacement is the leading therapy for the treatment of Parkinson's disease. Levodopa's effectiveness is hampered by its low water-solubility and limited absorption in the small intestine of the Parkinson's patient. Dopamine agonists have limited benefits due to the fewer number of neurons in that part of the brain of the patient. DDI, COMT and MAO-B inhibitors are limited in their effect due to the reduced levels of dopamine in the brain of the patient.

Notwithstanding the limitations, the combination of levodopa and carbidopa, the latter being a DDI, is the current standard of care for Parkinson's patients. Unstable levodopa levels in the blood and brain are believed to lead to variable, unpredictable efficacy and side-effects, including involuntary movements and psychological disorders. Spikes and troughs in the blood profile of the drug are often cited as one of the key factors leading to refraction, a condition where the drug becomes less effective over time (lesser activity and shorter duration of action). This leads patients to supplement their dose of levodopa with more levodopa, in hopes of achieving efficacy, only to further exacerbate the refraction problem. As a result, Parkinson's patients increasingly experience periods without the ability to move regardless of the amount of drug consumed (i.e., "off" time).

Apomorphine

Apomorphine hydrochloride has been known since the 1960s to be effective in Parkinson's disease. An injectable form of apomorphine hydrochloride was developed in the 1990's to treat mid-to-late stage Parkinson's disease patients suffering from motor fluctuations, and is known to be efficacious, safe and well-tolerated. Motor fluctuations are most common during end-of-dose deterioration in mobility known as "wearing off". These periods are a result of reduced duration of levodopa effectiveness, usually requiring increases in dose frequency of levodopa with less clinical benefit. This results in a "never on" phenomena and an eventual extension of "off" symptoms including tremors, bradykinesia, and rigidity.

Apomorphine by injection is the only approved form of apomorphine hydrochloride, sold in approximately 40 markets world-wide. Apomorphine is currently marketed as a hydrochloride injection in the U.S. under the trade name Apokyn, and outside the U.S. as ApoGo, ApokinON or Apomin, by a pharmaceutical company with partners in Europe, the Americas and Asia-Pacific.

In 2004, Apokyn was approved in the U.S. with Orphan Drug Status. In April 2011, the Orphan Drug Status expired.

Since the early 1990s, several groups have attempted to conceive and develop new drug delivery forms of apomorphine to avoid the injection route. Apomorphine cannot be formulated for oral ingestion because swallowing results in almost complete inaction as a result of liver metabolism. These included primarily unsuccessful attempts to develop drug products delivered via nasal, inhaled, sublingual tablet and transdermal routes. As almost all of these developments occurred prior to Apokyn® approval in 2004, they were new drug product developments and required full Phase 3 clinical trials. More recent sublingual, nasal and inhaled developments are more loosely aligned with the pharmacokinetic properties of the drug and an approval pathway that benefits from prior approval and known efficacy and safety record of Apokyn®.

In most cases, where the drug has been delivered either by injection, nasally or sublingually, clinicians have observed irritation. Cynapsus believes that irritation resulting from absorption of the drug is related to release of the hydrochloride salt ("HCl") that is part of the API's (active pharmaceutical ingredient) chemical structure. To remain stable for extended periods of time, apomorphine must be formulated as an acid (HCl) salt, but during absorption into the blood

stream that HCl is released, causing a lowering of the local pH and, irritation. After repeat administration, this results in what is essentially a chemical (acid) burn. It is believed that inhaled delivery will equally result in irritation and that regulatory agencies will be very vigilant and request extensive clinical testing to demonstrate non-irritance and safety.

APL-130277

Cynapsus' drug candidate, APL-130277, is an easy-to-administer, fast-acting reformulation of apomorphine, being developed to rescue patients from "off" episodes. APL-130277 is a bilayer film designed to facilitate the delivery of the drug through the oral mucosal route under the tongue. In this thin film format the strip dissolves in saliva maintaining "normal", near physiological pH, during absorption, thus obviating any issues with irritation. To date, short term administration of APl-130277 in animal and human studies has not shown any macroscopic or microscopic signs of irritation.

In July 2010, Cynapsus announced the results of a survey of neurologists and movement disorder specialists relating to Parkinson's practices and treatments, specifically targeted at analyzing the use of apomorphine products. An independent, experienced, medical survey company in the U.S. questioned 50 neurologists in the United States and Europe, who collectively treat approximately 12,000 Parkinson's patients for motor fluctuations. The results of the survey validated the APL-130277 product concept and showed that neurologists would value an approved drug using the Corporation's sublingual delivery system and would use the APL-130277 product to treat several categories of Parkinson's patients.

In November 2010, Cynapsus announced that it had received favourable results from a second survey conducted, on behalf of the Corporation, by the same leading independent healthcare market research group. The survey results forecast favourable acceptance of APL-130277 by HMOs and insurers as well as an attractive range of pricing for the product from a reimbursement perspective. This survey of 11 large U.S. payors gauged their opinion and acceptance of APL-130277. The results indicate that APL-130277 may be readily accepted by payors and reimbursed at price levels at or near the level at which apomorphine injection is currently reimbursed as well as possible premiums based on additional clinical data.

In December 2010, Cynapsus announced the completion of results of pre-clinical animal model studies of APL-130277. The results demonstrated that the APL-130277 sublingual thin film strip system was able to deliver apomorphine into the bloodstream of rabbits in a similar manner as the injection, in the proper quantity and over the required period of time.

In April 2011, Cynapsus met with the FDA in a pre-IND meeting. Cynapsus reviewed the drug product concept, data obtained to date and proposed a 505(b)(2) type regulatory pathway for approval of APL-130277.

In December 2011, Cynapsus announced the results of the Global 500 Neurologists Survey. Collectively, the professionals surveyed treat approximately 62,000 Parkinson's patients per year with approximately 41.4% classified as mild-moderate in severity, 42.2% as moderate-severe,

and 16.4% as severe. The results of this survey confirmed and expanded on the results of the smaller neurologist survey that was completed at the direction of the Corporation in July 2010.

In January 2012, Cynapsus announced positive data from the first human volunteer pilot proof-of-concept study (CTH-101) of APL-130277. The study showed a pharmacokinetic ("PK") profile that compared favourably to historical PK data seen with injected apomorphine with a mean time post-administration when the maximum drug concentration in the blood is achieved ("Tmax") of 25 minutes and good tolerability. The successful completion of this first in-man study was an important de-risking event for APL-130277.

The pharmacokinetics and safety/tolerability of APL-130277 were demonstrated in 15 healthy volunteers with 12 of 15 subjects receiving drug product and 3 subjects receiving placebo. Patients were dosed in a two period crossover with APL-130277 placing the drug in a different orientation under the tongue. The study determined that the sublingual orientation does impact the Tmax and PK of APL-130277. In the majority of subjects, maximum blood levels were reached within 20 minutes of administration. Pharmacokinetic parameters mirrored those seen with a subcutaneous injection of apomorphine after an expected dose adjustment. The study showed that APL-130277 was safe and showed good local tolerability (no irritation). Adverse events were mostly mild in intensity with one subject having moderate nausea and dizziness immediately post-dosing. In placebo treated subjects, 33% had at least one adverse event during the treatment period, with 17% of subjects having at least one adverse event in the APL-130277 treatment group. The adverse effects were typical of those commonly observed with apomorphine injection.

In August 2012, Cynapsus announced that it had been awarded a grant of USD$947,925 from the MJFF to support clinical studies to develop APL-130277, a sublingual thin film strip reformulation of apomorphine. The grant was awarded under the MJFF's The Edmond J. Safra Core Programs for Parkinson's Research, Clinical Intervention Award, aimed at supporting human clinical trials testing promising Parkinson's therapies that may significantly and fundamentally improve treatment for people with Parkinson's.

In August 2012, Cynapsus announced the results of a second human volunteer pilot proof-of-concept clinical trial (CTH-102) of APL-130277. The results of the first study (CTH-101) were reported on January 10, 2012. This second pilot study was closed out in August 2012 after it was determined that the plasma concentrations reached with 8mg matched internal predictions and a potentially therapeutic concentration had been reached. The first dose evaluated in the study was deemed to be dose proportional to the dose evaluated in the CTH-101 clinical pilot study and achieved a pharmacokinetic profile (Cmax, AUC and Tmax) that was sufficiently similar to subcutaneous injectable apomorphine. Management decided that it was unnecessary to proceed with a second dose, and then began preparations for a Comparative Biostudy (CTH-103) to be funded by the MJFF.

The pharmacokinetics and safety/tolerability of APL-130277 were demonstrated in a second Phase 1 pilot study in 12 healthy volunteers with 10 of 12 subjects receiving active drug product and 2 receiving placebo. Patients were dosed in a two period crossover with APL-130277 placing the drug in a different orientation under the tongue. The study determined that the

sublingual orientation does impact the Tmax and PK of APL-130277. The dose was deemed to be dose proportional to the dose evaluated in CTH101 and achieved a pharmacokinetic profile (Cmax, AUC and Tmax) that was sufficiently similar to subcutaneous injectable apomorphine that management decided to begin preparations for the Comparative Biostudy (CTH-103).
In September 2012, Cynapsus commenced activities for the Comparative Biostudy (CTH-103) of APL-130277. CTH-103 was a placebo-controlled, randomized cross-over Phase 1 trial in healthy volunteers to examine the pharmacokinetic profile of three dose strengths of APL-130277 as compared to equivalent doses of apomorphine subcutaneous injection. The objective of this study was to directly compare the pharmacokinetic profile of APL-130277 to subcutaneous apomorphine in healthy subjects to more precisely design the subsequent bio-equivalent registration trial to support an FDA 505(b)(2) NDA.

In December 2013, Cynapsus completed activities for the Comparative Biostudy (CTH-103) of APL-130277. The CTH-103 study was planned as a three-dose active comparator, placebo-controlled, randomized cross-over trial to examine the pharmacokinetic profile of sublingual administered APL-130277 compared to the subcutaneous injection of apomorphine in healthy volunteers. The 10mg and 15mg APL-130277 sublingual thin-film strips were crossed over to 2mg and 3mg subcutaneous injections, with N=15 and N=14 for the two cohorts, respectively. The Tmax (time to maximum concentration) was 31 minutes and 40 minutes for the two doses of APL-130277. The rapid uptake of apomorphine is similar to that described in the Apokyn® label (i.e. between 10 and 60 minutes). In addition, the sublingual thin film strip delivery system achieved an average minimum threshold exposure of approximately 3 ng/ml in plasma for both dose levels administered, which is expected to be sufficient to restore motor control (the “ON”) in patients requiring the lowest titratable doses of a subcutaneous injection. The sublingual thin film strips also demonstrated proportionality between the doses. The results from CTH-103 support the pursuit of an efficacy program under the 505(b)(2) regulatory path. The intent in the CTH-103 study for the third cohort was to compare the 25mg sublingual thin film strip (APL-130277) to the 4mg subcutaneous injection, but this third cohort could not be dosed due to the dose-limiting adverse events experienced with the 3mg subcutaneous injection. The 15mg APL-130277 side effects were mild-to-moderate and not dose limiting. The Corporation is in the process of preparing a single arm, healthy volunteer pharmacokinetic study to look at the 25mg APL-130277 sublingual strip (without a crossover to the injection), which is expected to be completed in Q1 2014.

APL-130277 Regulatory Plan

For development of APL-130277 in the United States, the Corporation will follow the 505(b)(2) regulatory pathway. Specifically, the Corporation is pursuing the reformulation of apomorphine from a subcutaneous injection to a convenient and more tolerable and safe sublingual thin film strip. The drug being delivered (apomorphine) is identical to the drug used in the injection, and its use will be intended as an acute rescue therapy for Parkinson’s patients experiencing acute, intermittent hypomobility (i.e. “off” episodes) associated with advanced Parkinson’s disease, which is the description of the use of apomorphine in the current US approved label.

The 505(b)(2) pathway will require that the Corporation provide statistically sufficient clinical evidence that Parkinson’s patients experience management of their “off” episodes, as a result of

delivery of apomorphine via the sublingual thin film strip route. The primary end point would be based on the change in the Unified Parkinson's Disease Rating Scale Part III (UPDRS III) movement score. In addition, the Corporation would be required to provide in a separate study, statistically sufficient clinical evidence that administering apomorphine via a sublingual thin film route would result in the Parkinson's patients experiencing low to no oral irritation as a result of multiple daily exposures to the drug for an extended period.

To achieve this, the Corporation currently expects to complete the following clinical studies:

(1) **CTH-105 Pilot Study.** A pilot study in patients with Parkinson's disease who are naïve to the use of apomorphine and who experience at least one daily "off" episode with a total duration of "off" in any 24-hour period of at least 2 hours. This study is planned to examine the effect of APL-130277 on relieving "off" episodes over a single day with a dose-titration used to determine dose strengths necessary for future clinical development. The CTH-105 study is expected to begin in mid-2014 subsequent to the acceptance of an Investigational New Drug (IND) application by the FDA. CTH-105 is expected to be completed by the end of Q3 2014.

(2) **CTH-200 Bridging Study.** A single dose, crossover comparative bioavailability and PK study in healthy volunteers. This study is designed to provide the clinical "bridge" to the FDA's finding of safety and efficacy for the Reference Listed Drug (s.c. Apomorphine). Subject to APL-130277 demonstrating dose and composition proportionality, only one dose will likely be required to be tested. The CTH-200 Bridging Study is also expected to begin in mid-2014 subsequent to CTH-105. It is expected to be complete by end of Q3 2014 and is required under the FDA's 505(b)(2) regulations to demonstrate comparability to the reference listed drug.

(3) **CTH-300a Efficacy Study in apomorphine naïve patients.** A double-blind, placebo-controlled, parallel-design study with Parkinson's patients who have at least one "off" episode every 24 hours, with total "off" time of at least 2 hours cumulatively. The primary end point will be the change in the UPDRS III score.

(4) **CTH-300b Efficacy Study in apomorphine experienced patients.** A randomized, double blind, double dummy, placebo and active controlled, 3 arm, 3 period, crossover-designed study with Parkinson's patients who are presently controlled with the use of apomorphine. The primary end point will be the change in the UPDRS III score. Upon successful completion of the CTH-300a and CTH-300b efficacy studies, the Corporation will provide the results to the FDA. The Corporation will then request a meeting to confirm the results and their interpretation with the FDA and seek final guidance on the structure and primary and secondary end points for the Safety Study (CTH-301).

(5) **CTH-301 Safety Study.** A long-term safety study with Parkinson's patients who experience daily "off" episodes of no less than 1 per day with cumulative "off" of no less 2 hours in any 24 hour period. The Safety Study is expected to start in early 2015 and be completed by the end of 2015. Based upon the initial interaction in April 2011

with the FDA, the study is expected to administer the drug to approximately 150 to 250 Parkinson's patients diagnosed and in need of apomorphine, but who have never used it before. The FDA has indicated that this study must specifically look at the safety and tolerability of the new delivery route over a minimum period of 12 weeks. The Corporation currently plans to run this study for at least 16 weeks.

The above clinical development plan has been vetted with both clinical experts and three different regulatory consultants who have expertise in overseeing FDA 505(b)(2) submissions to the Agency. All indicate that the plan outlined above should be met favourably by the Agency.

In parallel to the studies, the Corporation will be performing the necessary scale-up, process validation and stability as part of the Chemistry, Manufacturing and Controls ("CMC") requirements for the filing of the NDA. Accordingly, all development will be performed according to current Good Manufacturing Practices ("cGMP") methodology.

Upon completion of the efficacy and safety studies, as well as the CMC section, the Corporation will begin the preparation of a FDA 505(b)(2) NDA in 2016.

REVIEW OF OPERATING RESULTS:

Operating, General and Administrative ("OG&A") Expense

For the year ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Operating, general and administrative	2,637,149	1,373,192	1,263,957	92.0

For the three months ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Operating, general and administrative	848,909	380,109	468,800	123.3

The increase in OG&A expense for the year ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the resumption of expenditures that were constrained in the prior years due to lack of financial resources. More specifically, following the closing of the financing in March 2013, there were increases in investor and public relations activities, professional and legal fees, senior officers' base salaries, and Board retainer and meeting fees (commencing July 1, 2013). In addition, there were also one-time listing, professional and legal fees associated with the United States OTCQX listing, as well as one-time consulting fees associated with a comprehensive U.S. commercial assessment of APL-130277. On July 18, 2013, the Company's common shares were approved for trading in the United States on the OTCQX marketplace ("OTCQX"). Trading commenced immediately on the OTCQX International under the symbol CYNAF. The Company continues to trade on the TSX Venture Exchange under its existing symbol CTH.

The increase in OG&A expense for the three months ended December 31, 2013 compared to December 31, 2012 is primarily attributed to a one-time increase in consulting fees associated with a comprehensive U.S. commercial assessment of APL-130277, as well as Board approved increases in senior officers' base salaries, increases in investor and public relations activities, and increases in Board retainer and meeting fees commencing July 1, 2013. During the period, the average monthly OG&A expenditures were: salaries and benefits ($85,000), consulting fees ($70,000), professional and legal fees ($45,000), investor and public relations activities ($20,000), office and administration ($20,000), Board retainer and meeting fees ($20,000), travel ($20,000), and corporate finance ($5,000).

Research and Development ("R&D") Expense

For the year ended December 31,

	2013 ($)	2012 ($)	$ change in 2012	% change in 2012
Research and development	1,630,609	814,716	815,893	100.1

For the three months ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Research and development	915,037	336,186	578,851	172.2

The increase in R&D expense for the year ended December 31, 2013 compared to December 31, 2012 is primarily due to consulting, formulation development, analytical and clinical expenditures related to the CTH-103 Phase 1 clinical trial of APL 130277, which were considerably higher than the expenditures for the CTH-102 Phase 1 clinical trial of APL 130277 during 2012. The Company also purchased a significant amount of API (Active Pharmaceutical Ingredient) which will be used in upcoming clinical manufacturing scale-up work and clinical trials in 2014.

The increase in R&D expense for the three months ended December 31, 2013 compared to December 31, 2012 is primarily due to formulation development, analytical and clinical expenditures related to the CTH-103 Phase 1 clinical trial of APL 130277, which were greater than the expenditures for the CTH-102 Phase 1 clinical trial of APL 130277 during the same period in 2012. The Company also purchased a significant amount of API which will be used in upcoming clinical manufacturing scale-up work and clinical trials in 2014.

Other Operating Expenses

For the year ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Other operating expenses				
Share-based payments	516,274	335,497	180,777	53.9
Amortization of intangible assets	58,986	58,986	-	-
Depreciation of equipment	2,050	2,002	48	2.4
Foreign exchange loss (gain)	44,520	(9,572)	54,092	(565.1)
(Recovery) on scientific research	(44,232)	(86,219)	41,987	(48.7)
Total other operating expenses	577,598	300,694	276,904	92.1

For the three months ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Other operating expenses				
Share-based payments	68,186	36,480	31,706	86.9
Amortization of intangible assets	14,746	14,746	-	-
Depreciation of equipment	659	500	159	31.8
Foreign exchange loss (gain)	16,731	7,554	9,177	121.5
(Recovery) on scientific research	(15,000)	(20,000)	5,000	(25.0)
Total other operating expenses	85,322	39,280	46,042	117.2

The increase in other operating expenses in the year ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the increases in share-based payments, as stock options were granted in March and May 2013 to officers, directors, employees and consultants following the closing of the $7.3 million short form prospectus financing in March 2013. In addition, there was an increase in foreign exchange loss in the year ended December 31, 2013 due to the change in the US-Canadian exchange rate, as well as a decrease in expected recovery on scientific research, due to the fact that much of the R&D spending is being funded by the grant from the Michael J. Fox Foundation, which was not the case in 2012.

The increase in other operating expenses in the three months ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the increases in share-based payments, as stock options were granted in March and May 2013 to officers, directors, employees and consultants following the closing of the $7.3 million short form prospectus financing in March 2013. In addition, there was an increase in foreign exchange loss in the three months ended December 31, 2013 due to the change in the US-Canadian exchange rate.

Other Loss (Income)

For the year ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Other loss (income)				
Research grant	(424,187)	(289,516)	(134,671)	46.5
Other income	(2,200)	(13,200)	11,000	(83.3)
Severance and bonus accruals	977,103	-	977,103	100.0
Debenture accretion and interest costs	187,975	1,097,552	(909,577)	(82.9)
(Gain) on extension of debenture maturity dates	-	(225,263)	225,263	(100.0)
(Gain) on debentures exchange	(1,153,000)	-	(1,153,000)	100.0
Loss on disposal of fixed asset	1,325	-	1,325	100.0
Other interest and related charges	915	5,631	(4,716)	(83.7)
Total other loss (income)	(412,069)	575,204	(987,273)	(171.6)

For the three months ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Other loss (income)				
Research grant	(212,586)	(227,916)	15,330	(6.7)
Other income	-	(3,300)	3,300	(100.0)
Severance and bonus	215,000	-	215,000	100.0
Debenture accretion and interest costs	-	298,625	(298,625)	(100.0)
Other interest and related charges	(628)	4,173	(4,801)	(115.0)
Total other loss (income)	1,786	71,582	(69,796)	(97.5)

The increase in other income in the year ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the one-time gain on the exchange of debentures for shares and warrants, the research grant from The Michael J. Fox Foundation, and a decrease in accretion and interest expenses associated with debentures. These increases were offset by a decrease due to the reclassification of severance and bonus contingent liabilities that became payable upon closing the short form prospectus financing on March 1, 2013.

Regarding the one-time gain on the exchange of debentures for shares, the primary reason there was recorded gain to the Company relates to the fair values of the units in the short form prospectus financing and the calculated grant date fair values of the warrants in the debenture exchanges. More specifically, even though both transactions were priced at $0.46 per unit, the unit values of each were different due to fact that the Black-Scholes calculated value of the 5

year full warrants issued in the March 1, 2013 financing was higher, compared to the value of the 2 year half warrants issued in the March 1, 2013 debenture exchanges.

The decrease in other loss in the three months ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the elimination of accretion and interest expenses associated with debentures that were exchanged for shares and warrants on March 1, 2013. This decrease in other loss was offset by the recognition of bonus expenses in the fourth quarter that will be paid at the discretion of the Board.

Loss and Loss Per Share

For the year ended December 31,

	2013 ($)	2012 ($)	$ change in 2013	% change in 2013
Loss	4,433,287	3,063,806	1,369,481	44.7
Basic and diluted loss per share	0.13	0.22	(0.09)	(40.9)

The increase in loss for the year ended December 31, 2013 compared to December 31, 2012 is primarily attributed to the resumption of expenditures that were constrained in the prior years due to lack of financial resources. More specifically, following the closing of the financing in March 2013, there were increases in investor and public relations activities, professional and legal fees, senior officers' base salaries, and Board retainer and meeting fees (commencing July 1, 2013). In addition, there were also one-time listing, professional and legal fees associated with the United States OTCQX listing, as well as consulting fees associated with a comprehensive U.S. commercial assessment of APL-130277. The increase in R&D expenditures was primarily related to the CTH-103 Phase 1 clinical trial of APL 130277. The Company also purchased a significant amount of API which will be used in upcoming clinical manufacturing scale-up work and clinical trials in 2014.

There was also a one-time gain on the exchange of debentures for shares and warrants, a research grant from The Michael J. Fox Foundation, and a decrease in accretion and interest expenses associated with the debentures. These increases were offset by a decrease in the reclassification of severance and bonus contingent liabilities that became payable upon closing the short form prospectus financing on March 1, 2013.

The decrease in loss per share is reflective of the significant increase in shares outstanding as at December 31, 2013 compared to December 31, 2012, as a result of the closing of the financing and debenture exchanges in March 2013.

SUMMARY OF QUARTERLY RESULTS:

Annual Statements of Income:

	2013 ($)	2012 ($)
Total assets	3,149,000	1,169,000
Revenues	-	-
Interest income	-	-
Operating, general and administrative	2,637,000	1,373,000
Research and development	1,631,000	815,000
Other	165,000	876,000
Net loss	4,433,000	3,064,000
Loss per share (basic and diluted)	0.13	0.22

For the year ended December 31, 2013

	Corrected Q1($)	Q2($)	Q3($)	Q4($)	2013 Total ($)
Total assets	7,002,000	5,383,000	4,301,000	3,149,000	
Revenues	-	-	-	-	
Operating, general and administrative	390,000	661,000	737,000	849,000	2,637,000
Research and development	143,000	169,000	404,000	915,000	1,631,000
Other operating expenses	144,000	231,000	117,000	85,000	577,000
Research grant	(121,000)	(91,000)	-	(212,000)	(424,000)
Other income	(2,000)	-	-	-	(2,000)
Severance and bonus accruals	762,000	-	-	215,000	977,000
Debenture accretion and interest costs	188,000	-	-	-	188,000
(Gain) on debentures exchange*	(1,153,000)	-	-	-	(1,153,000)
Loss on disposal of equipment	-	1,000	-	-	1,000
Other interest and related charges	1,000	1,000	-	(1,000)	1,000
Net loss*	352,000	972,000	1,258,000	1,851,000	4,433,000
Loss per share (basic and diluted)	0.02	0.03	0.03	0.04	0.13

*__Note:__ The net loss for Q1 2013 has been corrected to include the one-time gain of $1,153,000 from the exchange of debentures on March 1, 2013. In the Company's financial statements for the three months ended March 31, 2013, the amount of this gain was shown as $Nil. The Company has adjusted the figure for both the six months ended June 30, 2013 and the nine months ended September 30, 2013 in order to correct this error.

For the year ended December 31, 2012

	Q1($)	Q2($)	Q3($)	Q4($)	2012 Total ($)
Total assets	1,403,000	948,000	1,137,000	1,169,000	
Revenues	-	-	-	-	-
Interest income	-	-	-	-	-
Operating, general and administrative	395,000	384,000	214,000	380,000	1,373,000
Research and development	122,000	252,000	105,000	336,000	815,000
Other operating expenses	111,000	63,000	87,000	39,000	300,000
Research grant		-	(61,000)	(229,000)	(290,000)
Other income	(4,000)	(2,000)	(3,000)	(4,000)	(13,000)
Debenture accretion and interest costs	206,000	295,000	299,000	298,000	1,098,000
(Gain) on extension of debenture maturity dates	(225,000)	-	-	-	(225,000)
Other interest and related charges	-	-	2,000	4,000	6,000
Net loss	605,000	992,000	643,000	824,000	3,064,000
Loss per share (basic and diluted)	0.05	0.07	0.05	0.05	0.22

LIQUIDITY AND CAPITAL RESOURCES

The cash and cash equivalents balance at December 31, 2013 was $2,289,046 compared to $50,401 at December 31, 2012. Since inception, cash requirements have been financed primarily through issuances of securities. In the previous two years, the Company also raised capital through the issuance of secured debentures. Cynapsus anticipates future funding requirements to be met primarily through additional securities issuances, debentures, research and development tax credits, other potential sources of government funding, grants from foundations that support Parkinson's research, or a combination of the above.

The balance of accounts payable and accrued liabilities was $2,315,082 at December 31, 2013, compared to $2,119,438 at December 31, 2012.

The balance of Series A to Series E debentures payable was $Nil at December 31, 2013, compared to $4,059,693 at December 31, 2012. On February 28, 2013, the total debentures outstanding were $4,247,668. 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.

The development of pharmaceutical products is a process that requires significant investment. Cynapsus expects to incur losses from operations for the foreseeable future. R&D expenses are expected to increase, including the expenses related to additions of personnel and clinical trials. General and administrative expenses are expected to increase in the future as the Company adds infrastructure and incurs additional costs.

Future cash requirements will depend on a number of factors, including the continued progress of R&D for the APL-130277 drug candidate, the timing and outcome of clinical trials and regulatory approvals, the timing of payments received or made under licensing or other agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, defending against patent infringement claims, the status of competitive products and the success of the Company in developing and maintaining markets for its products.

Management has forecasted that the Company's current level of cash and cash equivalents, including the proceeds from warrants exercised subsequent to year end, will not be sufficient to execute its current planned expenditures for the next 12 months without further financing being obtained. The Company is currently in discussion with several potential investors to provide additional funding. Management believes that it will complete one or more of these arrangements in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. There can be no assurance the Company will be able to obtain sufficient financing to meet future operational needs. As a result, there is a material uncertainty that may cast significant doubt as to whether the Company will be able to continue as a going concern, realize its assets and pay its liabilities as they fall due.

Operating Activities

For the year ended December 31, 2013, operating activities used cash of $4,184,164 compared to $1,337,281 used in operations for the year ended December 31, 2012. The increase is primarily attributed to the resumption of expenditures that were severely constrained in the prior years due to lack of financial resources. Cash used in operating activities reflects the net loss of $4,433,287 for the year ended December 31, 2013, adjusted for non-cash items including share-based payments, amortization of intangible assets, depreciation of equipment, debenture accretion expense, accrual of debenture interest expense, gain on debentures exchange, and changes in non-cash working capital (including severance and bonus accruals included in accounts payable and accrued liabilities, and deferred grant proceeds).

Investing Activities

For the year ended December 31, 2013, net investing activities were $10,117 compared to $Nil for the year ended December 31, 2012.

Financing Activities

For the year ended December 31, 2013, net financing activities generated cash of $6,432,926 compared to $1,092,870 for the year ended December 31, 2012.

Shareholders' equity increased to $594,019 at December 31, 2013 from a shareholders' deficiency of $5,010,201 at December 31, 2012, as the value of the shares and warrants issued in the short form prospectus offering and the debenture exchange for shares and warrants in March 2013 significantly offset the net loss for the twelve month period ended December 31, 2013.

Share Capital

The Company has authorized an unlimited number of common shares with no par value.

A summary of common shares, stock options and common share purchase warrants issued is as follows:

	As at April 8, 2014			
	Number of shares #	Number of shares issuable on exercise of options #	Number of shares issuable on exercise of warrants #	Total #
Common shares	40,136,611			40,136,611
Stock options		2,582,983		2,582,983
Common share purchase warrants			20,299,161	20,299,161
Total	40,136,611	2,582,983	20,299,161	63,018,755

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Revenue and Expenses

Revenue has historically been generated from interest received from short term deposits. Cynapsus expects longer-term revenues and profits to be generated from the commercialization of pharmaceutical products. These revenues are considered long-term as a result of the long lead times required to complete clinical trials and to receive regulatory approvals.

Research and development expenses consist primarily of vendor, personnel and related costs associated with the formulation development and clinical testing of the Company's pharmaceutical product candidates.

Operating, general and administration costs consist of personnel and related costs associated with management, administration and finance functions, as well as professional fees, office rent, insurance and other corporate expenses.

Prospectus Offering, Share Consolidation and Debenture Exchange

(a) 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.

In addition, 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.

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, with $217,424 repaid. 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 were subject to a hold period to July 2, 2013.

(b) 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.

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 and fully used by December 31, 2013. On December 16, 2013, the Company received the final milestone payment of USD $238,012 ($254,102). As at December 31, 2013, $14,134 of the final milestone payment has been used, and $239,968 is recorded as deferred grant proceeds.

Expiry of Warrants

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

Grant of Stock Options

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. One-third of the options granted vested in 6 months, one-third will vest in 12 months and one-third will vest in 18 months.

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 equal to $0.31 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.

Expiry of Stock Options

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

On June 25, 2013, 50,000 stock options held by current and former directors of the Company expired unexercised.

On June 30, 2013, 214,062 stock options held by a former officer, employee and consultants of the Company expired unexercised.

Related Party Transactions

At December 31, 2013, included in accounts payable and accrued liabilities is $170,236 (December 31, 2012: $649,504) due to officers and directors of the Company. 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. As a result, these bonus amounts became payable at

that time, and have been accrued in these condensed interim consolidated financial statements. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

For the year ended December 31, 2013, the Company awarded bonuses of $186,000, to officers and other key management, with payment being contingent upon the Company raising additional equity and at the discretion of the Board.

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 $6,008,376 as part of a short form prospectus offering, triggering the issuance of these stock options.

The grant date fair value of share-based payments issued to related parties during the year ended December 31, 2013 was $497,503 (December 31, 2012: $259,000), of which $447,466 vested in 2013 (December 31, 2012: $216,833).

Commitments and Contingencies

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 $723,000 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 December 31, 2013, minimum rental commitments remaining under this lease are $40,500, all due within one year. In March 2014, the lease agreement was extended for two years. Starting May 1, 2014, the minimum rental commitments under the lease are $179,200, due within two years.

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 December 31, 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 December 31, 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 TSX Venture Exchange.

Subsequent Events

(a) On January 21, 2014, 108,333 stock options held by a former officer of the Company expired unexercised.

(b) In January, February and March 2014, 1,242,602 warrants of the Company were exercised at an exercise price of $0.575 to acquire 1,242,602 common shares for gross proceeds of $714,496.

(b) In February 2014, 10,000 warrants of the Company were exercised an exercise price of $1.00 to acquire 10,000 common shares for gross proceeds of $10,000.

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 year ended December 31, 2013.

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.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2013, the Company had cash and cash equivalents of $2,289,046 and other current assets of $118,329 (December 31, 2012 - $50,401 and $325,916) to settle current liabilities of $2,555,050 (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 $23,000.

RISKS AND UNCERTAINTIES

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to Cynapsus or that Cynapsus believes to be immaterial may also adversely affect Cynapsus' business. Prospective purchasers of securities in the capital of the Company should carefully consider the following risk factors, as well as those risks and uncertainties relating to Cynapsus' business disclosed under the heading "Risk Factors" in its latest Annual Information Form, as well as other information which is available at www.cynapsus.ca and at the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Availability of Additional Capital

The Company incurred a net loss of $4,443,287 for the year ended December 31, 2013 and expects to incur losses from continuing operations for the foreseeable future. As at December 31, 2013, the Company had cash and cash equivalents of $2,289,046. The Company will require significant additional financing and it may not have access to sufficient capital. The Company anticipates it will need additional financing in order to fund its ongoing research and development activities and for general corporate requirements. The Company may choose to seek additional funding through public or private offerings, debentures, corporate collaborations, partnership arrangements or grants. The amount of financing required will depend on many factors including the financial requirements of the Company to fund its research and clinical trials, and the possibility the Company may secure partnerships and achieve partnership milestones as well as to fund other working capital requirements. The Company's ability to access the capital markets or to enlist partners is mainly dependent on the progress of its research and development and regulatory approval of its product. There is no assurance that additional funding will be available on acceptable terms, if at all.

Recent and Anticipated Future Losses

The Company has a history of losses, and it has not generated any product revenue to date. It may never achieve or maintain profitability. Since inception, the Company has incurred significant losses each year and expects to incur significant operating losses as the Company continues product research and development and clinical trials. There is no assurance that the Company will ever successfully commercialize or achieve revenues from sales of its pharmaceutical product, if they are successfully developed, or that profitability will ever be achieved or maintained. Even if profitability is achieved, the Company may not be able to sustain or increase profitability.

Achievement of Development Goals in Time Frames Announced and Expected

The Company sets goals for and makes public statements regarding the timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated regulatory submission and approval dates and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in the Company's clinical trials, or the uncertainties inherent in the arrangements sufficient to commercialize its product. There can be no assurance that the Company's clinical trials will be completed, that the Company will make regulatory submissions or receive regulatory approvals as planned. If the Company fails to achieve one or more of these milestones as planned, the price of the Common Shares would likely decline.

Strict Regulatory Environment

The Company's product candidate has not received regulatory approval for commercial sale. Numerous statutes and regulations govern human testing and the manufacture and sale of human pharmaceutical products in Canada, the U.S. and other countries where the Company intends to market its product. Such legislation and regulation bears upon, among other things, the approval of protocols and human testing, the approval of manufacturing facilities, testing procedures and controlled research, review and approval of manufacturing, preclinical and clinical data prior to marketing approval including adherence to GMP during production and storage as well as regulation of marketing activities including advertising and labelling.

The completion of the clinical testing of the Company's product candidate and the obtaining of required approvals are expected to take approximately three years and require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period of time, if at all. Furthermore, clinical trials may be delayed or suspended at any time by the Company or by regulatory authorities if it is determined at any time that patients may be or are being exposed to unacceptable health risks, including the risk of death, or that compounds are not manufactured under acceptable GMP conditions or with acceptable quality. Any failure or delay in obtaining regulatory approvals would adversely affect the Company's ability to utilize its technology thereby adversely affecting operations. No assurance can be given that the Company's product candidate will prove to be safe and effective in clinical trials or that it will receive the requisite protocol approval or regulatory approval. Furthermore, no assurance can be given that current regulations relating to regulatory approval will not change or become more stringent.

There are no assurances the Company can scale-up, formulate or manufacture sufficient quantities with acceptable specifications for the regulatory agencies to grant approval or not require additional changes or additional trials be performed. The agencies may also require additional trials be run in order to provide additional information regarding the safety, efficacy or equivalency of any drug candidate for which the Company seeks regulatory approval. Similar restrictions are imposed in foreign markets other than the U.S. and Canada. Investors should be aware of the risks, problems, delays, expenses and difficulties which may be encountered by the Company in light of the extensive regulatory environment in which the Company's business

operates. Even if a product candidate is approved by the U.S. FDA or any other regulatory authority, the Company may not obtain approval for an indication whose market is large enough to recoup its investment in that product candidate. The Company may never obtain the required regulatory approvals for its product candidate.

Patent Applications

The Company's success will depend, in part, on its ability to obtain patents, protect trade secrets and operate without infringing upon the exclusive rights of third parties. Although the Company intends to file patent applications in the U.S., Europe and other jurisdictions, there is no guarantee that it will obtain such patents or that it will develop a patentable product. Moreover, there is no proof that any patent that is granted to the Company will make the product more competitive, that its patent protection will not be contested by third parties or that the patents of others will not be detrimental to the Company's commercial activities. It cannot be assured that other companies will not independently develop products similar to the Company's product, that they will not imitate its product, or that, if the Company obtains its patents, its competitors will not manufacture products designed to circumvent the exclusive patent rights granted to it.

Dependency on Securing a Pharmaceutical Partner

It is possible that even with further funding raised by issuing securities and debt financing that the Corporation may not be financially able to bring its product candidate to market. The Corporation has initiated its clinical and pre-clinical research programs for its product candidate with the intention that positive results may attract the attention of a well-financed pharmaceutical entity willing to enter into a partnership agreement to sponsor product development. There is a risk that the Corporation will not find such an entity, either at all or in sufficient time to support the research and clinical program. Failure to locate a pharmaceutical partner within a reasonable time frame could result in the cessation of the Corporation’s product development programs and result in a failure to bring any product candidate to market.

If a pharmaceutical partner is secured, there is no guarantee that the terms of the partnership agreement will be competitive or favourable for the Company and there is a risk that such an agreement could have a negative impact on the Company’s operations including, but not limited to:

- relinquishment of key managerial decisions;
- partial or complete loss of rights to intellectual properties;
- costly and hindering changes to clinical and research programs;
- alterations to third-party contracts; and
- unprofitable or inferior share of profits from any marketed product.

Such an event would have a material adverse effect on the Company’s profits and pose a risk to shareholder value.

Dependence on Strategic Partnerships and Licenses

The Company's success may depend on its ability to conclude development, manufacturing and marketing and distribution agreements with other pharmaceutical companies.

Factors that may affect the success of the Company's collaborative efforts with pharmaceutical company partners include the following:

- the Company's partners may be pursuing alternative technologies or developing alternative products, either on their own or in collaboration with others, that may be competitive with the product as to which they are collaborating with the Company, which could affect their commitment to the Company's product development efforts;

- the Company's technology partners may not be able to adequately supply its product in commercial quantities, which would adversely affect revenues;

- decreases in marketing or sales efforts or a discontinuation of marketing or sales of the Company's product by its commercial partners may reduce future revenues, which will be based on a percentage of net sales by these partners; and

- the Company's partners may terminate their collaborations with the Company, which could make it difficult for the Company to attract new partners or adversely affect how the Company is perceived in the business and financial communities.

The development of pharmaceutical products is a process that requires large investments and can take years to complete. Projects can be abandoned along the way or regulatory authorities can refuse to approve new products.

With respect to projects the Company initiates, the Company will attempt to minimize risk through the judicious selection of product candidates and by focusing on improving products that have already been marketed.

Dependency on Management and Key Consultants and Employees

The Company's operations are dependent on the abilities, experience and efforts of its management, consultants, advisors and other key employees. Should any of these persons be unable or unwilling to continue in their employment or arrangement with the Company, this could have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not have key man insurance on the lives of these personnel. In addition, substantial competition exists for qualified technicians and personnel in the pharmaceutical drug development industry, and the Company may be unable to attract or retain highly qualified personnel in the future to meet its needs. It is possible that additional incentives may be required and that some initiatives may be jeopardized if skill shortages occur. Any failure to attract qualified personnel may materially adversely affect the business, financial condition or results of operations of the Company.

Competition

Competition within the pharmaceutical drug development industry is intense and is expected to increase in the future. The Company's competitors have long operating histories and greater financial, technical and marketing resources than the Company. The introduction of new drugs similar to those being developed by the Company by such competitors could materially and adversely affect the Company's business, results of operations and financial condition. There can be no assurance that the Company will be able to respond effectively, or in a timely manner, to the various competitive factors affecting its industry.

Market Price of Common Shares

As the common shares are currently listed on the Exchange, factors such as announcements of quarterly variations in operating results, or new initiatives or contracts by competitors of the Company, as well as market conditions in the pharmaceutical drug development industry, may have a significant impact on the market price of the common shares of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operations of particular companies. Share prices for companies in the pharmaceutical drug development industry have experienced wide fluctuations that have been often unrelated to the operations of the companies themselves, such as changes in financial estimates by securities analysts or other events or factors, many of which will be beyond the Company's control. In addition, there can be no assurance that an active public market will develop or be sustained for the common shares.

Securities are Subject to Market Price Volatility

Market prices for the securities of pharmaceutical and biotechnology companies have historically been highly volatile and the market has, from time to time, experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as fluctuations in the Company’s operating results, the aftermath of any public announcements made by the Company, concerns as to the safety of any drugs developed by the Company, and general market conditions, can have an adverse effect on the market price of the Company’s securities.

Additional Information

For additional information with respect to certain of these and other factors, please refer to the Annual Information Form filed on March 26, 2014, and other documents filed on the System for Electronic Document Analysis and Retrieval at www.sedar.com.

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