

# **CYNAPSUS THERAPEUTICS INC.**

**Condensed Interim Consolidated Financial Statements  
For the Six Months Ended June 30, 2014**

**(Expressed in Canadian Dollars)**

**Unaudited**

**Condensed Interim Consolidated Statements of Financial Position****UNAUDITED**

(in Canadian dollars)

	NOTES	June 30, 2014	December 31, 2013
		\$	\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	7	20,636,044	2,289,046
Prepaid expenses and other current assets		176,385	118,329
Total current assets		20,812,429	2,407,375
Non-current assets			
Equipment	8	29,208	13,737
Intangible assets	9, 16	698,464	727,957
Total assets		21,540,101	3,149,069
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	10,14	856,966	2,315,082
Deferred grant proceeds	13	-	239,968
Total current liabilities		856,966	2,555,050
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	30,408,670	16,156,398
Equity reserves			
Warrants	12	13,599,799	4,047,947
Share-based payments	12	1,148,788	986,465
(Deficit)		(24,474,122)	(20,596,791)
Total shareholders' equity		20,683,135	594,019
Total liabilities and shareholders' equity		21,540,101	3,149,069

COMMITMENTS AND CONTINGENCIES (Note 16)

SUBSEQUENT EVENTS (Note 17)

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**

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**UNAUDITED**  
(in Canadian dollars)

		For the three months ended		For the six months ended	
	NOTES	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
		\$	\$	\$	\$
<b>EXPENSES</b>					
Operating, general and administrative		894,111	661,307	1,852,474	1,051,604
Research and development		1,164,166	168,891	1,612,858	311,462
Share-based payments	12	401,020	219,855	418,096	338,113
Amortization of intangible assets	9	14,747	14,746	29,493	29,493
Depreciation of equipment	8	1,776	367	2,435	733
Foreign exchange loss		367,327	11,136	390,225	21,374
(Recovery) on scientific research		(10,000)	(14,232)	(20,000)	(14,232)
Loss before other loss (income)		2,833,147	1,062,070	4,285,581	1,738,547
<b>OTHER LOSS (INCOME)</b>					
Research grant	13	-	(90,910)	(239,968)	(211,601)
Other income		-	-	-	(2,200)
Severance and bonus accruals	10, 14	-	-	-	762,103
Debenture accretion and interest costs	11	-	-	-	187,975
(Gain) on debentures exchange	11	-	-	-	(1,153,000)
Loss on disposal of equipment		-	1,325	-	1,325
Other interest (income) expense and related charges		(17,089)	531	(19,283)	1,460
<b>Loss and comprehensive loss for the period</b>		<b>2,816,058</b>	<b>973,016</b>	<b>4,026,330</b>	<b>1,324,609</b>
<b>Loss per share - basic and diluted</b>		<b>0.04</b>	<b>0.03</b>	<b>0.07</b>	<b>0.04</b>
<b>Weighted average number of shares outstanding – basic and diluted</b>		<b>72,392,778</b>	<b>38,884,009</b>	<b>56,016,951</b>	<b>30,391,936</b>

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

## Condensed Interim Consolidated Statements of Change in Equity

### UNAUDITED

(in Canadian dollars)

	Share Capital	Equity Reserves – Warrants	Equity Reserves - Share- Based Payments	Deficit	Total
	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2013</b>	<b>16,156,398</b>	<b>4,047,947</b>	<b>986,465</b>	<b>(20,596,791)</b>	<b>594,019</b>
Prospectus offering, net of transaction costs	13,037,024	9,803,212	-	-	22,840,236
Exercise of warrants, value of shares	988,356	(251,360)	-	-	736,996
Exercise of share-based payments, value of shares	226,892	-	(106,774)	-	120,118
Share-based payments	-	-	418,096	-	418,096
Expiry of share-based payments	-	-	(148,999)	148,999	-
Loss for the period	-	-	-	(4,026,330)	(4,026,330)
Activity for the period	14,252,272	9,551,852	162,323	(3,877,331)	20,089,116
<b>Balance as at June 30, 2014</b>	<b>30,408,670</b>	<b>13,599,799</b>	<b>1,148,788</b>	<b>(24,474,122)</b>	<b>20,683,135</b>
<b>Balance as at December 31, 2012</b>	<b>10,528,756</b>	<b>204,353</b>	<b>889,215</b>	<b>(16,632,525)</b>	<b>(5,010,201)</b>
Prospectus offering, first closing, net of transaction costs	2,908,293	2,619,761	-	-	5,528,054
Prospectus offering, second closing, net of transaction costs	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	-	-	338,113	-	338,113
Expiry of share-based payments	-	-	(310,469)	310,469	-
Loss for the period	-	-	-	(1,324,609)	(1,324,609)
Activity for the period	5,627,642	3,843,594	27,644	(964,143)	8,534,737
<b>Balance as at June 30, 2013</b>	<b>16,156,398</b>	<b>4,047,947</b>	<b>916,859</b>	<b>(17,596,668)</b>	<b>3,524,536</b>

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 six months ended	
	NOTES	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
		\$	\$	\$	\$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Loss for the period		(2,816,058)	(973,016)	(4,026,330)	(1,324,609)
Items not affecting cash:					
Share-based payments	12	401,020	219,855	418,096	338,113
Amortization of intangible assets	9	14,747	14,746	29,493	29,493
Depreciation of equipment	8	1,776	367	2,435	733
Debenture accretion expense	11	-	-	-	132,428
Accrual of debenture interest expense	11	-	-	-	55,547
(Gain) on debentures exchange	11	-	-	-	(1,153,000)
		(2,398,515)	(738,048)	(3,576,306)	(1,921,295)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		(17,104)	(135,284)	(58,056)	(195,357)
Change in accounts payables and accrued liabilities		(1,217,543)	(621,524)	(1,458,116)	(202,961)
Deferred grant proceeds	13	-	(90,910)	(239,968)	199,456
<b>Net cash (used in) operating activities</b>		<b>(3,633,162)</b>	<b>(1,585,765)</b>	<b>(5,332,446)</b>	<b>(2,120,157)</b>
<b>Investing activities</b>					
Purchase of equipment	8	(17,906)	(10,117)	(17,906)	(10,117)
<b>Financing activities</b>					
Gross proceeds from issuance of shares and warrants	12	25,000,000	-	25,000,000	7,317,536
Commissions and share issuance costs	12	(2,159,764)	(153,158)	(2,159,764)	(667,186)
Gross proceeds from exercise of warrants	12	12,501	-	736,996	-
Gross proceeds from exercise of share-based payments	12	120,118	-	120,118	-
Deferred finance costs		55,229	-	-	-
Partial repayment of debentures (principal and interest)	11	-	-	-	(217,424)
<b>Net cash generated from (used in) financing activities</b>		<b>23,028,084</b>	<b>(153,158)</b>	<b>23,697,350</b>	<b>6,432,926</b>
Increase (decrease) in cash		19,377,016	(1,749,040)	18,346,998	4,302,652
Cash and cash equivalents, beginning of period		1,259,028	6,102,093	2,289,046	50,401
<b>Cash and cash equivalents, end of period</b>		<b>20,636,044</b>	<b>4,353,053</b>	<b>20,636,044</b>	<b>4,353,053</b>

**SUPPLEMENTARY CASH FLOW INFORMATION** (Notes 7 and 15)

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

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**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 International (CYNAF: OTCQX). Cynapsus was incorporated under the federal laws of Canada. 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 August 12, 2014, the Board of Directors approved and authorized these condensed interim consolidated financial statements for the six month period ended June 30, 2014.

**2. BASIS OF PREPARATION**

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 have been 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, 2013 and December 31, 2012, and for the years then ended. 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.

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 six month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

**3. NEW ACCOUNTING POLICIES**

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 adoption of the amendments to this standard on January 1, 2014, had no material impact on the financial statements of the Company.

IAS 36 – Impairment of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of the amendments to this standard on January 1, 2014, had no material impact on the financial statements of the Company.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The adoption of the amendments to this standard on January 1, 2014, had no impact on the financial statements of the Company.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**4. FUTURE ACCOUNTING CHANGES**

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2015. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following pronouncement has not yet been adopted and is being evaluated to determine its 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, 2018. 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.

*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.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)***Share-Based Payments*

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

*Contingencies*

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 six months ended June 30, 2014.

**(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. As at June 30, 2014, the Company had cash and cash equivalents of \$20,636,044 (December 31, 2013 - \$2,289,046) to settle current liabilities of \$856,966 (December 31, 2013 - \$2,555,050). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**(iii) Market risk****(a) Interest rate risk**

The Company had a cash and cash equivalents balance of \$20,636,044 as at June 30, 2014. The Company's current policy is to hold cash in business savings accounts or 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.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**6. RISK MANAGEMENT (continued)****(iii) Market risk (continued)****(b) 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 or U.S. dollars. The Company funds certain research and development expenses in the United States, Europe and Asia using the U.S. Dollar currency from its U.S. dollar bank account 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. As at June 30, 2014, the Company had cash of \$13,913,600 and accounts payable and accrued liabilities of \$277,640 denominated in U.S. dollars (December 31, 2013 - \$253,050 and \$474,868). A plus or minus 1% change in foreign exchange rates could affect the Company's net loss by approximately \$140,000.

**(c) 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.

**(d) 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 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 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.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(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 June 30, 2014. The Company and its subsidiary are not subject to externally imposed capital requirements.

### 7. CASH AND CASH EQUIVALENTS

	June 30, 2014	December 31, 2013
	\$	\$
Cash in accounts at a Canadian Chartered Bank	20,606,044	2,259,046
Cash in Guaranteed Investment Certificates issued by a Canadian Chartered Bank	30,000	30,000
	20,636,044	2,289,046

### 8. EQUIPMENT

The following is a summary of equipment as at June 30, 2014 and December 31, 2013:

	Computer Equipment	Furniture and Fixtures	Total
Cost	\$	\$	\$
Cost at December 31, 2013	17,204	9,318	26,522
Additions	7,518	10,388	17,906
Cost at June 30, 2014	24,722	19,706	44,428
<b>Accumulated depreciation</b>			
Accumulated depreciation at December 31, 2013	5,353	7,432	12,785
Depreciation	2,074	361	2,435
Accumulated depreciation at June 30, 2014	7,427	7,793	15,220
<b>Net book value</b>			
Net book value as at December 31, 2013	11,851	1,886	13,737
Net book value as at June 30, 2014	17,295	11,913	29,208

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(in Canadian dollars)

### 9. INTANGIBLE ASSETS

The following is a summary of intangible assets as at June 30, 2014 and December 31, 2013:

	APL-130277 Patents	License Agreement	Total
	\$	\$	\$
<b>Cost</b>			
Original cost at December 31, 2013 and June 30, 2014	718,150	200,000	918,150
<b>Accumulated Amortization</b>			
Balance at December 31, 2013	95,752	94,441	190,193
Amortization	23,938	5,555	29,493
Balance at June 30, 2014	119,690	99,996	219,686
<b>Net book value</b>			
Net book value as at December 31, 2013	622,398	105,559	727,957
Net book value as at June 30, 2014	598,460	100,004	698,464

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio. The acquisition was accounted for as a purchase of assets by the Company, as Adagio did not meet the definition of a business. The aggregate purchase price was \$702,987 including common shares valued at \$520,000 and \$182,987 of costs related to the acquisition. After the inclusion of Adagio's assets (\$71) and liabilities (\$15,234), \$718,150 was recorded to intangible assets.

On June 10, 2005, the Company entered into a license agreement with a research and development company. The license is for patents that have been issued in certain jurisdictions, which will expire in February 2023, and are currently pending in other jurisdictions.

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a summary of accounts payable and accrued liabilities as at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	\$	\$
Trade payables	480,403	1,050,911
Due to related parties (Note 14)	99,725	170,236
Bonus accruals to related parties (Note 14)	-	715,068
Other accrued liabilities	276,838	378,867
	856,966	2,315,082

### 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. 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. 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.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(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
	#
<b>Balance, December 31, 2013</b>	38,884,009
Shares issued for cash from exercise of warrants	1,272,602
Shares issued for cash	38,461,538
Shares issued for cash from exercise of share-based payments (See Note 12 (iv))	333,667
<b>Balance, June 30, 2014</b>	<b>78,951,816</b>

In January, February and March 2014, an aggregate of 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.

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

On April 22, 2014, 20,000 warrants of the Company were exercised at an exercise price of \$0.625 to acquire 20,000 common shares for gross proceeds of \$12,500.

On April 15, 2014, the Company announced that it completed its previously announced short form prospectus offering of units. Pursuant to the offering, the Company issued an aggregate of 38,461,538 units at a price of \$0.65 per unit for gross proceeds of \$25,000,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant of the Company. The units immediately separated on closing into common shares and warrants. Each warrant entitles the holder to purchase one common share at a price equal to \$0.81 per share for a period of 60 months after the closing of the offering, except that, subject to certain exceptions, the warrants will be cancelled if they are not exercised within 30 days after written notice from the Company that the closing price of its common shares on the principal stock exchange of the Company has been \$1.95 per common share or more for 20 consecutive trading days. The Company paid a Canadian agent a work fee in the amount of \$65,500, plus HST, and has agreed to reimburse the Canadian agent and the U.S. agent for certain expenses incurred in connection with the offering. In addition, the Company paid the Canadian agent and U.S. agent cash commissions equal to a total of 7% of the offering, and issued 2,676,923 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 \$10,983,969, using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.41%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 110%, which was based on the historical share prices of the Company. The issue cost allocated to warrants was \$1,180,757.

Dexcel Pharma Group, a strategic pharmaceutical investor and significant shareholder of Cynapsus, and which also has two directors on the Board of the Company, subscribed for 6,153,846 units having an aggregate subscription price of \$4,000,000.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(in Canadian dollars)

### 12. SHARE CAPITAL (continued)

#### iii) Equity Reserve – Warrants

The number of warrants outstanding as at June 30, 2014 and December 31, 2013, and changes during the six months ended June 30, 2014 are presented below:

	Number of Warrants	Equity Reserve	Weighted Average Exercise Price/Share
	#	\$	\$
<b>Balance, December 31, 2013</b>	21,551,763	4,047,947	0.580
Issued for cash on April 15, 2014 (net of costs)	38,461,538	9,088,474	0.810
Issued as broker compensation on April 15, 2014	2,676,923	714,738	0.810
Exercised from January to April 2014	(1,272,602)	(251,360)	0.579
<b>Balance, June 30, 2014</b>	<b>61,417,622</b>	<b>13,599,799</b>	<b>0.734</b>

Warrants outstanding and exercisable as at June 30, 2014 are as follows:

Number of Warrants	Exercise Price	Exercise Trigger*	Equity Reserve	Expiry Date	Description
#	\$/ Share	\$/ Share	\$		
4,307,372	0.575	-	705,737	March 1, 2015	Debenture exchange
190,000	1.000	1.50	43,147	July 18, 2017	Private placement
330,400	0.625	-	75,342	October 24, 2017	Private placement
127,496	0.625	-	29,036	November 23, 2017	Private placement
12,357,193	0.575	1.38	2,410,245	March 1, 2018	Prospectus offering, first closing
2,966,700	0.575	1.38	533,080	March 1, 2018	Prospectus offering, second closing
41,138,461	0.810	1.95	9,803,212	April 15, 2019	Prospectus offering
<b>61,417,622</b>					

**\*Note:** Included in some of the warrant agreements are provisions such that each warrant entitles the holder to purchase one common share at a price equal to the exercise price per share for a period up to the closing date, except that, subject to certain exceptions, the warrants will be cancelled if they are not exercised within 30 days after written notice from the Company that the closing price of its common shares on the principal stock exchange of the Company has been 3 times the unit price of the offering or more for 20 consecutive trading days.

The weighted average grant date fair value of the warrants issued during the six months ended June 30, 2014 is \$0.24 (year ended December 31, 2013: \$0.19). The weighted average contractual life remaining for the warrants at June 30, 2014 is 4.21 years (December 31, 2013: 3.55 years).

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(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 June 30, 2014, there are a total of 4,220,649 options outstanding, representing 5.3% 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 June 30, 2014 and December 31, 2013, and changes during the six months ended June 30, 2014 are as follows:

	Number of Options #	Weighted Average Exercise Price/Share \$
<b>Options outstanding as at December 31, 2013</b>	2,691,316	0.58
Issued	2,256,000	0.65
Exercised	(333,667)	0.36
Forfeited	(143,000)	0.43
Expired	(250,000)	1.00
<b>Options outstanding as at June 30, 2014</b>	4,220,649	0.62

On May 20, 2014, 2,256,000 options were granted to directors and officers of the Company at an exercise price of \$0.65 per share for a period of 5 years from the date of the grant. One third of the options vested immediately, one-third will vest in 6 months and one-third will vest in 12 months. The grant date fair value of the options were estimated at \$924,960, using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.33%, expected life of 5 years, expected dividend rate of 0%, and expected volatility of 113%, which was based on the historical share prices of the Company.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(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 six months ended June 30, 2014 is \$0.41 (year ended December 31, 2013: \$0.30).

Stock options issued and outstanding as at June 30, 2014 are as follows:

Number of Options Outstanding	Number of Options Vested and Exercisable	Effective Exercise Price	Expiry Date
#	#	\$/share	
45,000	45,000	1.00	August 31, 2014
50,000	50,000	1.00	November 16, 2014
27,500	27,500	1.00	March 3, 2015
72,500	72,500	1.00	August 12, 2015
10,000	10,000	1.00	November 10, 2015
60,000	60,000	1.00	March 4, 2016
40,000	40,000	1.00	August 19, 2016
295,000	295,000	1.00	March 23, 2017
26,000	26,000	1.00	May 30, 2017
25,000	25,000	1.00	August 29, 2017
373,316	248,877	0.46	March 1, 2018
950,000	950,000	0.36	May 1, 2018
25,000	25,000	0.31	May 28, 2018
2,221,333	752,000	0.65	May 20, 2019
4,220,649	2,626,877		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at June 30, 2014 is 2,626,877 (December 31, 2013: 1,970,109). The weighted average exercise price of these options as at June 30, 2014 is \$0.61 (December 31, 2013: \$0.66).

The weighted average contractual life remaining for the exercisable and outstanding shares issuable on exercise of stock options at June 30, 2014 is 3.66 years and 4.09 years, respectively (December 31, 2013: 3.47 years and 3.68 years).

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**12. SHARE CAPITAL (continued)**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, as at March 31, 2013, all the common shares held under the corporate escrow were released, with 699,530 shares remaining under the executive escrow agreement. The Company released 349,765 shares on December 22, 2013.

As at June 30, 2014, a total of 349,765 shares are still under executive escrow, which are to be released on December 22, 2014. 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 US\$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 US\$297,825 (\$289,516) was received on September 20, 2012 and was fully used by December 31, 2012. The second milestone payment of US\$412,087 (\$410,053) 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 US\$238,012 (\$254,102). As at June 30, 2014, all of the final milestone payment had been used, and \$Nil (December 31, 2013: \$239,968) is recorded as deferred grant proceeds.

See Note 17, Subsequent Events.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(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 six months ended June 30, 2014 and 2013 are included in operating, general and administrative expenses ("OG&A"), research and development expenses ("R&D") and other loss/income ("Other") as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Salary and benefits to President and CEO (OG&A)	\$ 87,178	\$ 80,592	\$ 167,505	\$ 144,956
Salaries to other officers (OG&A)	79,934	82,500	163,416	154,438
Salary and consulting fees to other key management (R&D)	42,981	43,750	86,827	57,250
Bonuses to officers and other key management (Other)	-	-	-	529,068
Director fees (OG&A)	74,000	21,400	144,428	25,350
	\$ 284,093	\$ 228,242	\$ 562,176	\$ 911,062

At June 30, 2014, included in accounts payable and accrued liabilities is \$99,725 (December 31, 2013: \$170,236) 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. As a result, these bonus amounts became payable at that time. Following the closing of the \$25 million short form prospectus financing in April 2014, these bonuses owing were paid in full (See Note 10).

For the year ended December 31, 2013, the Company awarded bonuses of \$186,000, to officers and other key management. Following the closing of the \$25 million short form prospectus financing in April 2014, these bonuses owing were paid in full (see Note 10).

The grant date fair value of share-based payments issued to related parties during the three and six months periods ended June 30, 2014 was \$791,300 and \$791,300 (June 30, 2013: \$417,240 and \$497,503), of which \$263,767 and \$263,767 vested in the respective periods (June 30, 2013: \$139,081 and \$219,344).

See also Note 12, Share Capital, and Note 16, Commitments and Contingent Liabilities.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements June 30, 2014

(in Canadian dollars)

### 15. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Issuance of shares and warrants in exchange for debentures	-	-	-	2,877,244
Value of warrants issued as share issue costs	714,738	-	714,738	125,878
Change in accrued deferred financing costs	(197,933)	(153,158)	-	(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 \$738,000 and are all payable within one year.

The Company is committed to a minimum rental under a lease for its premises. As at June 30, 2014, the minimum rental commitments under the lease are \$164,267, due over 22 months.

The Company has entered into research and development agreements requiring total payments of approximately \$1,042,000 within the next 6 months, and approximately \$650,000 within the following 17 months. One of these contracts contain a clause in which subject to certain conditions, the Company agrees to pay the vendor an amount equal to fees based on the minimum billable hours for the remainder of the agreement term, in the event of a change of control of the Company. As a triggering event has not taken place, these contingent payments have not been recognized in these financial statements. The Company does not have a practicable estimate for the amount of this contingent liability due to the nature of the triggering event. As at June 30, 2014, the maximum amount of any contingent liability, based on a remaining term of 23 months, was \$878,000, which was included in the amount of unrecognized contractual commitments.

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 June 30, 2014.
- 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 June 30, 2014.

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.

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
June 30, 2014****(in Canadian dollars)**

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**17. SUBSEQUENT EVENTS**

- (a) On July 3, 2014, the Company was awarded a new grant of USD \$500,000 from The Michael J. Fox Foundation for Parkinson's Research (MJFF) to support clinical studies to develop APL-130277, a sublingual thin film strip reformulation of apomorphine (See Note 13). This second MJFF grant will be used to fund the Company's CTH-105 clinical study. As part of the MJFF grant agreement, Cynapsus has made a commitment to support further Parkinson's research by making up to USD \$1 million in contributions to MJFF based on future sales of APL-130277.
- (b) On July 17, 2014, 17,051 warrants of the Company were exercised at an exercise price of \$0.575 to acquire 17,051 common shares for gross proceeds of \$9,804.