CYNAPSUS THERAPEUTICS INC.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2014

(Expressed in Canadian Dollars)

Unaudited

CYNAPSUS THERAPEUTICS INC.
Interim Consolidated Statements of Financial Position

UNAUDITED
(in Canadian dollars)

	NOTES	As at September 30, 2014	As at December 31, 2013
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	7	19,496,961	2,289,046
Prepaid expenses and other current assets		159,179	118,329
Total current assets		19,656,140	2,407,375
Non-current assets			
Equipment	8	57,609	13,737
Intangible assets	9, 16	683,717	727,957
Total assets		20,397,466	3,149,069
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10,14	1,183,967	2,315,082
Deferred grant proceeds	11	-	239,968
Total current liabilities		1,183,967	2,555,050
SHAREHOLDERS' EQUITY			
Share capital	12	30,421,268	16,156,398
Equity reserves			
Warrants	12	13,597,005	4,047,947
Share-based payments	12	1,320,656	986,465
Deficit		(26,125,430)	(20,596,791)
Total shareholders' equity		19,213,499	594,019
Total liabilities and shareholders' equity		20,397,466	3,149,069

COMMITMENTS AND CONTINGENT LIABILITIES (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.
Interim Consolidated Statements of Operations and Comprehensive Loss

UNAUDITED
(in Canadian dollars)

		For the three months ended September 30,		For the nine months ended September 30,	
	NOTES	**2014**	**2013**	**2014**	**2013**
		$	**$**	**$**	**$**
EXPENSES					
Operating, general and administrative		1,005,843	736,636	2,858,317	1,788,240
Research and development		1,247,054	404,110	2,859,912	715,572
Share-based payments	12	212,368	109,975	630,464	448,088
Amortization of intangible assets	9	14,747	14,747	44,240	44,240
Depreciation of equipment	8	2,923	658	5,358	1,391
Foreign exchange (gain) loss		(644,660)	6,415	(254,435)	27,789
Recovery on scientific research		(21,717)	(15,000)	(41,717)	(29,232)
Research grant	11	(112,000)	-	(351,969)	(211,601)
Other income		-	-	-	(2,200)
Severance and bonus accruals	10, 14	-	-	-	762,103
Debenture accretion and interest costs	13	-	-	-	187,975
Gain on debentures exchange	13	-	-	-	(1,153,000)
Loss on disposal of equipment		-	-	-	1,325
Other interest (income) expense and related charges		(12,750)	83	(32,032)	1,543
Loss and comprehensive loss for the period		1,691,808	1,257,624	5,718,138	2,582,233
Loss per share - basic and diluted		0.02	0.03	0.09	0.08
Weighted average number of shares outstanding – basic and diluted		78,965,716	38,884,009	63,750,601	33,253,733

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

CYNAPSUS THERAPEUTICS INC.
Interim Consolidated Statements of Change in Shareholders' Equity

UNAUDITED
(in Canadian dollars)

	Share Capital	Equity Reserves – Warrants	Equity Reserves - Share-Based Payments	Deficit	Total
	$	$	$	$	$
Balance as at December 31, 2013	16,156,398	4,047,947	986,465	(20,596,791)	594,019
Prospectus offering, net of transaction costs	13,037,024	9,803,212	-	-	22,840,236
Exercise of warrants	1,000,954	(254,154)	-	-	746,800
Exercise of share-based payments	226,892	-	(106,774)	-	120,118
Share-based payments	-	-	630,464	-	630,464
Expiry of share-based payments	-	-	(189,499)	189,499	-
Loss for the period	-	-	-	(5,718,138)	(5,718,138)
Activity for the period	14,264,870	9,549,058	334,191	(5,528,639)	18,619,480
Balance as at September 30, 2014	30,421,268	13,597,005	1,320,656	(26,125,430)	19,213,499
Balance as at December 31, 2012	10,528,756	204,353	889,215	(16,632,525)	(5,010,201)
Prospectus offering, first closing, net of transaction costs	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	-	-	448,088	-	448,088
Expiry of share-based payments	-	-	(419,024)	419,024	-
Loss for the period	-	-	-	(2,582,233)	(2,582,233)
Activity for the period	5,627,642	3,843,594	29,064	(2,113,212)	7,387,088
Balance as at September 30, 2013	16,156,398	4,047,947	918,279	(18,745,737)	2,376,887

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

CYNAPSUS THERAPEUTICS INC.
Interim Consolidated Statements of Cash Flows

UNAUDITED
(in Canadian dollars)

		For the three months ended September 30,		For the nine months ended September 30,	
	NOTES	2014	2013	2014	2013
		$	$	$	$
Operating activities					
Loss for the period		(1,691,808)	(1,257,624)	(5,718,138)	(2,582,233)
Items not affecting cash:					
Share-based payments	12	212,368	109,975	630,464	448,088
Amortization of intangible assets	9	14,747	14,747	44,240	44,240
Depreciation of equipment	8	2,923	658	5,358	1,391
Debenture accretion	13	-	-	-	132,428
Accrual of debenture interest	13	-	-	-	55,547
Unrealized gain on foreign exchange	6(iii)(b)	(644,660)	-	(254,435)	-
Gain on debentures exchange	13	-	-	-	(1,153,000)
		(2,106,430)	(1,132,244)	(5,292,511)	(3,053,539)
Changes in non-cash operating items:					
Change in prepaid expenses and other current assets		17,206	123,329	(40,850)	(72,028)
Change in accounts payables and accrued liabilities		327,001	65,628	(1,131,115)	(137,333)
Deferred grant proceeds	11	-	-	(239,968)	199,456
Net cash used in operating activities		(1,762,223)	(943,287)	(6,704,444)	(3,063,444)
Investing activities					
Purchase of equipment	8	(31,324)	-	(49,230)	(11,442)
Proceeds on disposal of equipment	8	-	-	-	1,325
Net cash used in investing activities		(31,324)	-	(49,230)	(10,117)
Financing activities					
Gross proceeds from issuance of shares and warrants	12	-	-	25,000,000	7,317,536
Commissions and share issuance costs	12	-	-	(2,159,764)	(667,186)
Gross proceeds from exercise of warrants	12	9,804	-	746,800	-
Gross proceeds from exercise of share-based payments	12	-	-	120,118	-
Partial repayment of debentures (principal and interest)	13	-	-	-	(217,424)
Net cash provided by financing activities		9,804	-	23,707,154	6,432,926
Effect of exchange rate changes on cash and cash equivalents		644,660	-	254,435	-
Increase (decrease) in cash		(1,139,083)	(943,287)	17,207,915	3,359,365
Cash and cash equivalents, beginning of period		20,636,044	4,353,053	2,289,046	50,401
Cash and cash equivalents, end of period		19,496,961	3,409,766	19,496,961	3,409,766

SUPPLEMENTARY CASH FLOW INFORMATION (Notes 7 and 15)
The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

Cynapsus Therapeutics Inc. ("Cynapsus" or the "Company") is a specialty pharmaceutical company developing an improved dosing formulation of an approved drug used to treat the symptoms of Parkinson's disease. The Company's shares are listed (CTH: TSX-V) on the TMX Group Inc.'s TSX Venture Exchange ("Exchange") located in Toronto, Ontario, Canada, and traded in the U.S. on OTCQX 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 November 10, 2014, the Board of Directors approved and authorized these condensed interim consolidated financial statements for the three and nine month periods ended September 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 unaudited interim condensed consolidated financial statements have been prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements. The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Any subsequent changes to IFRS or their interpretation, that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2014 could result in a restatement of these unaudited interim condensed consolidated financial statements.

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 three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

3. NEW ACCOUNTING POLICIES

IFRIC 21 –International Financial Reporting Standards Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21") was issued in May 2013. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. The Company adopted IFRIC 21 in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption did not have a material impact on the financial statements.

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.

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 July 2014 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income. 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 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 the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and the 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 judgements, estimates and assumptions in determining carrying values include, but are not limited to:

Intangible assets
The Company estimates the useful lives of intangible assets from the date they are available for use in the manner intended by management and periodically reviews the useful lives to reflect management's intent about developing and commercializing the assets.

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 income tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

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 judgement used in applying valuation techniques. These assumptions and judgements 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 judgements 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 three and nine months ended September 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 its 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 as they come due. As at September 30, 2014, the Company had cash and cash equivalents of $19,496,961 (December 31, 2013 - $2,289,046) to settle current liabilities of $1,183,967 (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 $19,496,961 as at September 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.

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 September 30, 2014, the Company had cash of $13,795,524 and accounts payable and accrued liabilities of $540,876 denominated in U.S. dollars (December 31, 2013 - $253,050 and $474,868, respectively). A plus or minus 10% change in foreign exchange rates could affect the Company's net loss by approximately $1,400,000.

(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 short-term nature 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.

Capital risk management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its research and development activities. The Company's capital structure consists of share capital and equity reserves. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business.

The products which the Company currently has in its pipeline are in the research stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administration costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended September 30, 2014. The Company and its subsidiary are not subject to externally imposed capital requirements.

(in Canadian dollars)

7. CASH AND CASH EQUIVALENTS

	September 30, 2014	December 31, 2013
	$	$
Cash in accounts at a Canadian chartered bank	19,466,763	2,259,046
Cash in Guaranteed Investment Certificates issued by a Canadian chartered bank	30,198	30,000
	19,496,961	2,289,046

8. EQUIPMENT

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

	Computer Equipment	Furniture and Fixtures	Total
Cost	$	$	$
Cost at December 31, 2013	17,204	9,318	26,522
Additions	10,592	38,638	49,230
Cost at September 30, 2014	27,796	47,956	75,752
Accumulated depreciation			
Accumulated depreciation at December 31, 2013	5,353	7,432	12,785
Depreciation	3,603	1,755	5,358
Accumulated depreciation at September 30, 2014	8,956	9,187	18,143
Net book value			
Net book value as at December 31, 2013	11,851	1,886	13,737
Net book value as at September 30, 2014	18,840	38,769	57,609

(in Canadian dollars)

9. INTANGIBLE ASSETS

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

	APL-130277 Patents	License Agreement	Total
	$	$	$
Cost			
Original cost at December 31, 2013 and September 30, 2014	718,150	200,000	918,150
Accumulated Amortization			
Balance at December 31, 2013	95,752	94,441	190,193
Amortization	35,908	8,332	44,240
Balance at September 30, 2014	131,660	102,773	234,433
Net book value			
Net book value as at December 31, 2013	622,398	105,559	727,957
Net book value as at September 30, 2014	586,490	97,227	683,717

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 September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	$	$
Trade payables	828,871	1,050,911
Due to related parties (Note 14)	102,122	170,236
Bonus accruals to related parties (Note 14)	100,000	715,068
Other accrued liabilities	152,974	378,867
	1,183,967	2,315,082

11. 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 March 31, 2014, all of the final milestone payment had been used, and $Nil (December 31, 2013: $239,968) is recorded as deferred grant proceeds.

On July 3, 2014, the Company was awarded a new grant of US$500,000 from MJFF to support clinical studies to develop APL-130277, a sublingual thin film strip reformulation of apomorphine. 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 US$1,000,000 in contributions to MJFF based on future sales of APL-130277. The first milestone payment of US$100,000 ($112,000) was received on September 4, 2014 and was recognized as research grant income in the third quarter of 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
	#
Balance, December 31, 2013	38,884,009
Shares issued for cash from exercise of warrants	1,289,653
Shares issued for cash	38,461,538
Shares issued for cash from exercise of share-based payments (Note 12(iv))	333,667
Balance, September 30, 2014	78,968,867

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 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.

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 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 reimbursed 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 five 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, 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.

(in Canadian dollars)

12. SHARE CAPITAL (continued)

iii) Equity Reserve – Warrants

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

	Number of Warrants	Equity Reserve	Weighted Average Exercise Price/Share
	#	$	$
Balance, December 31, 2013	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 July 2014	(1,289,653)	(254,154)	0.579
Balance, September 30, 2014	61,400,571	13,597,005	0.734

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

Number of Warrants	Exercise Price	Exercise Trigger*	Equity Reserve	Expiry Date	Description
#	$/ Share	$/ Share	$		
4,290,321	0.575	-	702,943	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
61,400,571			13,597,005		

***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 three 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 nine months ended September 30, 2014 is $0.24 (year ended December 31, 2013: $0.19). The weighted average contractual life remaining for the warrants at September 30, 2014 is 3.96 years (December 31, 2013: 3.55 years).

(in Canadian dollars)

12. SHARE CAPITAL (continued)

iv) Reserve – Share-based payments

The Company has in place a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The number of options granted is approved by the Board of Directors. All options expire 365 days after the resignation of an employee or director and expire 90 days after the resignation of a consultant.

The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. As at September 30, 2014, there are a total of 4,175,649 options outstanding, representing 6.8% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company in a 12-month period. Option grants to persons providing consulting and investor services may not exceed 2% of the issued and outstanding common shares of the Company in any 12-month period. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the Board of Directors of the Company and shall not be lower than the discounted market price (as defined by the the TSX Venture Exchange) of the shares at the time of grant, subject to all applicable regulatory requirements.

The number of stock options outstanding as at December 31, 2013 and September 30, 2014, and changes during the nine months ended September 30, 2014 are as follows:

	Number of Options #	**Weighted Average Exercise Price/Share** $
Options outstanding as at December 31, 2013	2,691,316	0.58
Issued	2,256,000	0.65
Exercised	(333,667)	0.36
Forfeited	(143,000)	0.43
Expired	(295,000)	1.00
Options outstanding as at September 30, 2014	4,175,649	0.61

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 five years from the date of the grant. One third of the options vested immediately, one-third will vest in six months and one-third will vest in 12 months. The grant date fair value of the options was estimated at $924,960, using the Black-Scholes option pricing model based on the following assumptions: riskfree interest rate of 1.33%, expected life of five years, expected dividend rate of 0%, and expected volatility of 113%, which was based on the historical share prices of the Company.

The weighted average grant date fair value of the stock options issued during the nine months ended September 30, 2014 is $0.41 (year ended December 31, 2013: $0.30).

(in Canadian dollars)

12. SHARE CAPITAL (continued)

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

Number of Options Outstanding #	Number of Options Vested and Exercisable #	Effective Exercise Price $/share	Expiry Date
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	373,316	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
4,175,649	2,706,316		

The total number of common shares that are issuable pursuant to stock options that are exercisable as at September 30, 2014 is 2,706,316 (December 31, 2013: 1,970,109). The weighted average exercise price of these options as at September 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 September 30, 2014 is 3.47 years and 3.88 years, respectively (December 31, 2013: 3.47 years and 3.68 years).

v) Escrow shares

On December 22, 2011, Cynapsus completed the acquisition of Adagio. Immediately following the acquisition, 2,406,162 common shares of the Company issued to Adagio shareholders were subject to escrow. In March 2013, the Company completed two closings of a short form prospectus offering for gross proceeds of $7,317,160. As a result, 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 September 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 four 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.

(in Canadian dollars)

13. GAIN ON DEBENTURES EXCHANGE

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.

14. RELATED PARTY DISCLOSURES

Directors and key management are related parties to the Company. In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the Board of Directors (through the Corporate Governance and Compensation Committee) having regard to the performance of individuals and market trends.

Related party transactions during the three and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Salary and benefits to President and CEO (OG&A)	$ 81,315	$ 82,312	$ 248,820	$ 227,268
Salaries and benefits to other officers (OG&A)	44,751	113,998	121,769	312,186
Salary and consulting fees to other key management (R&D)	52,212	11,250	160,289	25,020
Bonuses to officers and other key management (OG&A, R&D and Other)	100,000	-	100,000	529,068
Director fees (OG&A)	53,000	58,750	197,428	84,100
	$ 331,278	$ 266,310	$ 828,306	$ 1,177,642

At September 30, 2014, included in accounts payable and accrued liabilities is $102,122 (December 31, 2013: $170,236) due to officers and directors of the Company (Note 10). These amounts are unsecured and non-interest bearing with no fixed terms of repayment.

At September 30, 2014, also included in accounts payable and accrued liabilities is a bonus accrual to officers and other key management of $100,000.

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 (Note 10).

(in Canadian dollars)

14. RELATED PARTY DISCLOSURES (continued)

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 (Note 10).

The grant date fair value of share-based payments issued to related parties during the three and nine month periods ended September 30, 2014 was $Nil and $791,300 (September 30, 2013: $Nil and $497,503), of which $Nil and $263,767 vested in the respective periods (September 30, 2013: $Nil and $219,344).

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

15. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended September 30,		Nine Months Ended September 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	125,878
Change in accrued deferred financing costs	-	-	-	(257,039)

16. COMMITMENTS AND CONTINGENT LIABILITIES

At September 30, 2014, the Company has research and development and other service contract commitments, as well as minimum future payments under operating leases for the periods presented as follows:

	Less than 1 year	1 - 2 years	Total
	$	$	$
Purchase Obligations	975,000	344,000	1,319,000
Operating Leases	100,000	52,000	152,000
Total Contractual Obligations	1,075,000	396,000	1,471,000

Subsequent to September 30, 2014, the Company entered into additional research and other service contracts, resulting in additional purchase commitments of $2,179,000 due within one year. As a result, the total current commitments are $3,650,000. One of these additional commitments, amounting to $186,000, related to a purchase obligation for equipment.

Of the total purchase obligations, one contract contains a change of control 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. 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 September 30, 2014, the maximum amount of any contingent liability, based on a remaining term of 19 months, was $764,000, which was included in the amount of unrecognized purchase obligations.

16. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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 $769,000 and are all payable within one year.

On December 22, 2011, the Company completed the acquisition of 100% of the outstanding common shares of Adagio and certain indebtedness of Adagio (the “Transaction”). The Transaction was structured as a share exchange with Adagio shareholders receiving newly issued common shares of the Company in exchange for all of the issued and outstanding shares of Adagio. Adagio shareholders are entitled to the following remaining payments pursuant to the Transaction:

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

On July 3, 2014, as a condition of the MJFF grant agreement, the Company has made a commitment to support further Parkinson’s research by making up to US$1,000,000 in contributions to MJFF conditional on future sales of APL-130277. See Note 11, Research Grant.

17. SUBSEQUENT EVENTS

On October 24, 2014, 100,000 warrants of the Company were exercised at an exercise price of $0.81 to acquire 100,000 common shares for gross proceeds of $81,000.

See also Note 16, Commitments and Contingent Liabilities.