Aequus Pharmaceuticals Inc.

Financial Statements
For the period from January 3, 2013 (date of inception) to December 31, 2013
(Expressed in Canadian dollars)

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Independent Auditor's Report

To the Board of Directors of
Aequus Pharmaceuticals Inc.

We have audited the accompanying financial statements of Aequus Pharmaceuticals Inc., which comprise the statement of financial position as at December 31, 2013, and the statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Aequus Pharmaceuticals Inc. as at December 31, 2013 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Aequus Pharmaceuticals Inc. to continue as a going concern.

"Crowe MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
September 10, 2014

Aequus Pharmaceuticals Inc.

STATEMENT OF FINANCIAL POSITION

As of December 31, 2013

(Expressed in Canadian dollars)

	$
ASSETS	
Current	
Cash and cash equivalents	311,732
Amounts receivable	8,596
Prepaid expenses and other	10,261
	330,589
Property and equipment *[note 7]*	6,742
Total assets	**337,331**
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Current	
Accounts payable and accrued liabilities	56,736
Total liabilities	**56,736**
Shareholders' equity	
Share capital *[note 8]*	
Issued and outstanding:	
Common shares	1,195,281
Contributed surplus *[notes 8 (a)(i) and 8 (c)]*	714,590
Deficit	(1,629,276)
Total shareholders' equity	**280,595**
Total liabilities and shareholders' equity	**337,331**

Nature of Operations and Going Concern *[note 1]*
Commitments and Contingencies *[notes 10 and 11]*
Subsequent Events *[note 13]*

These financial statements were approved for issue by the Board of Directors on September 10, 2014 and signed on its behalf by:

/s/ Douglas G. Janzen	/s/ Fotios Plakogiannis
Director	Director

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

Aequus Pharmaceuticals Inc.

STATEMENT OF INCOME (LOSS)
AND COMPREHENSIVE INCOME (LOSS)
For the period from January 3, 2013 (date of inception) to December 31, 2013
(Expressed in Canadian dollars)

	$
Expenses	
Research and development	
Intellectual property protection and patent costs	115,800
Professional and consulting fees	76,613
Licensing fees *[note 12]*	310,790
Share-based payments *[notes 8 (a)(i), 8(c) and 12]*	463,884
Subcontract research and development costs *[note 12]*	31,079
Travel and accommodation	19,673
	1,017,839
General administration	
Advertising and promotion	23,302
Consulting and management fees *[note 12]*	153,000
Depreciation *[note 7]*	749
Legal and professional fees	97,628
Office and miscellaneous	9,896
Rent and telephone	62,718
Share-based payments *[notes 8 (a)(i), 8(c) and 12]*	250,706
Travel and accommodation	39,603
	637,602
Total operating expenses and loss before other income	**(1,655,441)**
Other income	
Foreign exchange gain and other	26,165
	26,165
Net loss and comprehensive loss	**(1,629,276)**
Basic and diluted loss per common share	**(0.08)**
Weighted average number of common shares outstanding	**21,335,593**

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

Aequus Pharmaceuticals Inc.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from January 3, 3013 (date of inception) to December 31, 2013

(Expressed in Canadian dollars)

	Common Shares		Contributed Surplus	Deficit	Total
	Number	**$**	**$**	**$**	**$**
Issued as founder shares *[note 8 (a)(i)]*	15,000,000	6,000	594,000	—	600,000
Issued for cash pursuant to private placements *[note 8 (a)(ii),(iv) and (v)]*	9,367,606	1,189,281	—	—	1,189,281
Share-based payments *[note 8 (c)]*	—	—	120,590	—	120,590
Net loss for the period	—	—	—	(1,629,276)	(1,629,276)
Balance, December 31, 2013	**24,367,606**	**1,195,281**	**714,590**	**(1,629,276)**	**280,595**

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

Aequus Pharmaceuticals Inc.

STATEMENT OF CASH FLOWS

For the period from January 3, 3013 (date of inception) to December 31, 2013

(Expressed in Canadian dollars)

	2013 $
OPERATING ACTIVITIES	
Net loss for the period	(1,629,276)
Add items not affecting cash:	
Depreciation	749
Share-based payments *[note 8 (a)(i) and 8 (c)]*	714,590
	(913,937)
Changes in non-cash working capital items relating to operations:	
Amounts receivable	(8,596)
Prepaid expenses and other	(10,261)
Accounts payable and accrued liabilities	56,736
Cash used in operating activities	**(876,058)**
INVESTING ACTIVITY	
Purchase of property and equipment	(7,491)
Cash used in investing activity	**(7,491)**
FINANCING ACTIVITY	
Issuance of common shares and warrants, net of issuance costs	1,195,281
Cash provided by financing activity	**1,195,281**
Increase in cash and cash equivalents	**311,732**
Cash and cash equivalents, end of the period	**311,732**
Cash and cash equivalents consists of:	
Cash	300,108
Demand deposits	11,624
	311,732

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Business Description

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on January 3, 2013. The Company is a speciality pharmaceutical company focused on enhancing delivery methods for approved drugs and consumer products that are limited by non-compliance, high frequency dosing, first-pass metabolism side effects, painful injections, or where the commercial presentation can be improved by making a long acting alternative available.

The address of the Company's corporate office is Suite 1500, 888 Dunsmuir Street, Vancouver, British Columbia, Canada, V6C 3K4.

Going Concern and Uncertainty

These financial statements (the "Financial Statements") have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown and these Financial Statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Company is considered to be in the early stage of development, as most of its efforts have been devoted to early research and development and raising capital, and has accumulated a deficit of $1,629,276 as at December 31, 2013. The Company anticipates it will continue to incur substantial operating expenses in connection with the research and development of its proposed drug products and expects these expenses to result in continuing operating losses for the foreseeable future. The Company has funded its operations primarily by common share and warrant issuances. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing, complete development and commercialization of its products and generate profits in the future. These factors indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Management is planning to raise additional capital to finance the Company's expected growth. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail the Company's operations.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

[b] Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.

2. BASIS OF PRESENTATION (cont'd)

[c] Functional and presentation currency

Items included in these Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). Management has determined that the functional currency of the Company is Canadian dollar and the Financial Statements is presented in Canadian dollars.

[d] Critical judgments and sources of estimation uncertainty

The preparation of these Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Financial Statements:

i. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.

ii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

iii. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38 "Intangible Assets". Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

2. BASIS OF PRESENTATION (cont'd)

[d] Critical judgments and sources of estimation uncertainty (cont'd)

Estimation Uncertainty (cont'd)

i. The Company uses the fair value method to account for share-based payments and warrants. The Black-Scholes option pricing model is used to determine the fair value of share options granted and warrants issued. This pricing model requires management to make assumptions and estimates including future volatility of share price, expected yield and expected risk-free interest rate. Given their inherently uncertain nature, any changes in these assumptions and estimates will affect the fair values of share-based payments and warrants.

ii. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

iii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements are prepared within the framework of the significant accounting policies summarized below.

[a] Financial instruments

Financial assets and liabilities are initially recognized at fair value when the Company becomes party to the contracts that give rise to them. Subsequent measurement depends on whether the financial instrument is classified as fair value through profit and loss ("FVTPL"), available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial instruments classified as (i) FVTPL are measured at fair value with unrealized gains and losses recognized in net income or loss; (ii) available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss; and (iii) held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Transaction costs in respect of FVTPL financial instruments are recognized in net income or loss at the transaction date whereas transaction costs in respect of other financial instruments are included in the initial fair value measurement of the financial instruments.

The Company has designated its cash and cash equivalents as FVTPL, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, and currency risk, as disclosed in *note 6* of these Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

[b] Cash and cash equivalents

Cash consists of cash on hand and demand deposits. Cash equivalents consist of highly liquid financial instruments.

[c] Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable and includes expenditures that are directly attributable to the acquisition of the asset. Where an item of property and equipment is comprised of major components with different useful lives, each component is accounted and depreciated for as a separate item. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. The estimated average useful lives of the property and equipment are as follows:

Office furniture and equipment	5 years

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

[d] Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. A legal obligation is an obligation that derives from a contract, legislation or other operation of law. A constructive obligation is an expectation that is created by an established pattern of past practice, published policies or a sufficiently specific current statement the Company has indicated to other parties that it will accept certain responsibilities, and as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities. A provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Contingent liabilities and contingent assets are not recognized in these Financial Statements. However, contingent liabilities are disclosed in the notes to these Financial Statements unless the possibility of any outflow in settlement is remote, and contingent assets are disclosed in the notes to these Financial Statements if the inflow of economic benefit is deemed probable. The Company does not have any contingent assets.

[e] Research and development costs

Research costs, including costs for new patents and patent applications, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, intent and ability to develop and use the technology, are met for deferral and amortization. No development cost has been deferred to date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

[f] Share-based payments

The Company grants stock options to directors, officers and consultants pursuant to a stock option plan described in *note 8[c]*. The Company uses the fair value method to account for all share-based awards granted, modified or settled, and the Black-Scholes option pricing model to determine the fair value of share options granted. As such, a share-based payment is recorded based on the estimated fair value of options with a corresponding credit to contributed surplus. Any consideration received on the exercise of share options is credited to share capital. Share options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of share options that will eventually vest are accounted for prospectively.

In connection with the issuance of founder shares at inception, the Company recognized share-based payments of $594,000 related to the fair value of the shares issued. The fair value of share-based payment was measured as the difference between share price issued to arms-length person and the share price issued to the founders of the Company.

[g] Foreign currency transaction and translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

[h] Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between carrying values of assets and liabilities and their respective income tax bases, unused tax losses and other income tax deductions. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The extent to which deductible temporary differences, unused tax losses and other income tax deductions are expected to be realized is reassessed at the end of each reporting period.

Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the related tax assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net income or loss except when they arise as a result of items recognized in other comprehensive income or loss, or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or loss, or in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

[i] Loss per common share

Basic loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per common share is equivalent to the basic loss per common share as the effects of outstanding warrants and options disclosed in *note 8* are anti-dilutive for all periods presented.

[j] Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

[k] Investment tax credit

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in profit or loss depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are recorded upon the Company receiving cash from the Canada Revenue Agency.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Not Yet Adopted

The following is an overview of new accounting standards that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its Financial Statements.

- **IFRS 9** - *Financial Instruments*. This standard partially replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

- **IAS 32** - *Financial Instruments, Presentation.* Amendments to offsetting financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2014.

- **IAS 36** - *Impairment of Assets.* The standard is effective for annual periods beginning on or after January 1, 2014.

5. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the development of its product candidates for ultimate sale or out-licensing. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

The Company includes equity comprised of issued share capital, contributed surplus and deficit in the definition of capital. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value due to their short-term nature.

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 – inputs for the asset or liability that are not based upon observable market data.

The fair value of cash and cash equivalents is based on Level 1 inputs of the fair value hierarchy.

The Company is exposed to credit risk, liquidity risk and market risks including interest rate risk and currency risk detailed herein.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash on deposits with banks, and from time to time due to its holdings of short-term investments. The Company has investment policies to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment policies limit the investing of excess funds to liquid term deposits with banks and government guaranteed securities with maturities of two years or less. The Company had no short-term investment at December 31, 2013.

The maximum credit exposure of the Company at period end is the carrying value of its cash and amounts receivable. The Company holds its cash balances with major banks in Canada. Amounts receivable consist of primarily goods and services tax due from the Federal Government of Canada.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of December 31, 2013, the Company had working capital of $273,853**.** As at December 31, 2013, the Company had a cash and cash equivalents balance of $311,732 to settle current liabilities of $56,736. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company plans to raise additional working capital in the next fiscal year.

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Given the level of cash held by the Company during the period ended December 31, 2013, fluctuations in the market interest rates had no significant impact on its interest income.

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in US dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows.

As at December 31, 2013, the Company had the following assets and liabilities denominated in US dollars:

	US$
Cash	165,920
Accounts payable and accrued liabilities	(8,492)
Total	**157,428**

Based on the above net exposures as at December 31, 2013, and assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in an increase or decrease of $8,372 in the Company's net loss and comprehensive loss.

7. PROPERTY AND EQUIPMENT

	Total $
Office Furniture and Equipment	
Cost	
Additions	7,491
Balance, December 31, 2013	**7,491**
Accumulated depreciation	
Additions	749
Balance, December 31, 2013	**749**
Net book value as of December 31, 2013	**6,742**

8. SHARE CAPITAL

[a] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of Class A preferred shares without par value		
Unlimited number of common shares without par value		
Issued and Outstanding		
Class A preferred shares	—	—
Common shares		
Issued for cash to the Company's co-founders *[note 8 [a](i) and (iii)]*	15,000,000	6,000
Issued for cash pursuant to a private placement *[note 8 [a](ii) and (iii)]*	6,686,750	267,470
Issued for cash pursuant to a private placement *[note 8 [a](iv)]*	1,387,286	485,550
Issued for cash pursuant to a private placement, net of issuance cost *[note 8 [a](v)]*	1,293,570	436,261
Balance, December 31, 2013	**24,367,606**	**1,195,281**

(i) On January 3, 2013 following its inception, the Company issued 15,000,000 common shares at a deemed value of $0.0004 per share to its co-founders. In connection with the issuance of founder shares, the Company recognized share-based payments of $594,000 related to the fair value of the shares issued. The fair value of share-based payment was measured as the difference between share price issued to arms-length person and the share price issued to the founders of the Company.

(ii) On February 25, 2013, the Company initiated a private placement. The Company completed this private placement and issued 6,686,750 common shares at a price of $0.04 per common shares from February 25, 2013 to April 30, 2013.

8. SHARE CAPITAL (cont'd)

[a] Common shares (cont'd)

(iii) On June 3, 2013, the Company completed a stock split on a one for two-and-half basis. All share capital, warrants, options and per share amounts in the Financial Statements have been retroactively restated to reflect the stock split.

(iv) On June 20, 2013, the Company completed a private placement of 1,387,286 units (the "Units") at a price of $0.35 per Unit for total gross proceeds of $485,550. Each Unit was converted, without additional consideration, into one common share and one common share purchase warrant of the Company. Each common share purchase warrant entitles the holder to purchase one common share of the Company at $0.65 per share until June 20, 2015. The Company has the right to accelerate the expiry date of the common share purchase warrants if it enters into a development and manufacturing agreement prior to June 20, 2015.

(v) On September 10, 2013, the Company completed a private placement of 1,293,570 units (the "Units") at a price of $0.35 per Unit for total gross proceeds of $452,750. Each Unit was converted, without additional consideration, into one common share and one common share purchase warrant of the Company. Each common share purchase warrant entitles the holder to purchase one common share of the Company at $0.65 per share until July 12, 2015, except for 347,857 common share purchase warrants until June 20, 2015. The Company incurred $16,489 in other share issuance costs. The Company has the right to accelerate the expiry date of the common share purchase warrants if it enters into a development and manufacturing agreement prior to June 20, 2015 or July 12, 2015, as applicable.

[b] Common share purchase warrants

As of December 31, 2013, the Company had the following common share purchase warrants outstanding:

	Number	Weighted Average Exercise Price $
Issued	2,680,856	0.65
Balance, December 31, 2013	**2,680,856**	**0.65**

Date of Expiry	Exercise Price	Number of Warrants
June 20, 2015 *[note 8 [a](iv)]*	$0.65	1,387,286
June 20, 2015 *[note 8 [a](v)]*	$0.65	347,857
July 12, 2015 *[note 8 [a](v)]*	$0.65	945,713
Balance, December 31, 2013	**$0.65**	**2,680,856**

8. SHARE CAPITAL (cont'd)

[c] Stock options

On April 1, 2013, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The maximum number of common shares that are issuable under the Stock Option Plan is an aggregate of 10% of the issued and outstanding common shares, calculated as at the award date of the options. The maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the fiscal period ended December 31, 2013, the Company granted 1,369,735 share options and recorded share-based payments of $120,590. The fair value of share options granted and vested during the fiscal period ended December 31, 2013 is estimated using the Black-Scholes option pricing model using the following weighted-average assumptions:

	2013
Risk-free interest rate	1.88%
Estimated annualized volatility	100%
Expected life	7.67 years
Expected dividend yield	0%
Exercise price	$0.27
Fair value	$0.23

As of December 31, 2013, the Company had 1,369,735 share options outstanding granted to officers, directors, consultants and scientific advisory board members.

	Number	**Weighted Average Exercise Price** $
Granted	1,369,735	0.27
Balance, December 31, 2013	**1,369,735**	**0.27**

Date of Expiry	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
May 31, 2020	$0.10	449,735	224,868
December 12, 2021	$0.35	920,000	292,500
Balance, December 31, 2013	**$0.27**	**1,369,735**	**517,368**

9. INCOME TAXES

At December 31, 2013, the Company has non-capital loss carryforwards available to offset future taxable income in Canada, that expire as follows:

	Non-Capital Losses $
December 31, 2033	790,774

The Company also has a tax pool of approximately $120,671 related to scientific research and experimental development expenditures in Canada available to carry forward indefinitely to reduce taxable income of future years.

Significant components of the Company's deferred income tax assets and liabilities are shown below:

	December 31, 2013 $
Deferred income tax assets:	
Property and equipment	195
Share issuance costs	3,430
Scientific research and experimental development expenditures	31,374
Non-capital loss carryforwards	205,601
Total deferred income tax assets	240,600
Deferred income tax assets not recognized	(240,600)
Total deferred income tax assets	-

The potential income tax benefits relating to the net deferred income tax assets have not been recognized in the Financial Statements as their realization did not meet the requirements of "probable" under the liability method of tax allocation. Accordingly, no net deferred income tax assets have been recognized as at December 31, 2013. The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expenses using a 25.75% statutory tax rate is:

	December 31, 2013 $
Income tax recovery at statutory rates	(419,539)
Items not deductible for tax purposes	185,498
Effect of change in tax rates	(2,272)
Benefits not recognized	236,313
Income tax expense	-

10. COMMITMENTS

On July 30, 2013, the Company signed a license agreement (the "License Agreement") with Transdermal Research Pharm Laboratories, LLC ("TRPL") for an exclusive perpetual worldwide licence to use and exploits certain patents, the relative patent rights, know-hows and other intellectual property rights associated with a transdermal formulation of aripiprazole. TRPL is a company controlled by the co-founders and directors of the Company. Pursuant to this License Agreement, the Company paid TRPL licensing fees and other related costs of $310,790 (US$300,000) during the period ended December 31, 2013. The Company also agreed to pay future royalty payments linked to net sales of the products based on the underlying Technology.

Subsequent to December 31, 2013, the Company and TRPL entered into an amendment agreement dated June 1, 2014 to remove the obligations of future royalty payments.

On August 1, 2013, the Company and TRPL entered into a research service contract ("Research Service Contract") to cover certain research work as directed by the Company. This Research Service Contract has a term expiring June 30, 2015 and no fixed financial commitment. Funding of research work is at the Company's sole discretion. The Company paid TRPL subcontract research costs of $31,079 during the period ended December 31, 2013.

11. CONTINGENCIES

The License Agreement includes indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. As of the date of these Financial Statements, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying Financial Statements with respect to these indemnification obligations.

12. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

Related party transactions were recorded at the exchange amount, which was the amount of consideration paid or received as established and agreed to between the parties. Costs incurred, in the normal course of business, in all related party transactions during the period ended December 31, 2013 were as follows:

[i] Pursuant to the License Agreement and Research Service Contract *[note 10]*, the Company paid the Licensor licensing fees and other related costs of $310,790 (US$300,000) and subcontract research and development costs of $31,079 (US$30,000).

12. RELATED PARTY DISCLOSURE (cont'd)

[a] Transactions with related parties (cont'd)

[ii] Pursuant to consulting agreements described in note 12[b], the Company paid $64,000 of consulting fees and $88,500 of management fees to companies owned by its officers or directors.

[iii] Share based payments related to founder shares issued to co-founders who served as directors and officers were $594,000.

[iv] Share based payments related to options granted to officers and directors were $36,934.

[b] Key management contracts

As of December 31, 2013, the Company entered into consulting agreements with the following related parties:

[a] A company controlled by Mr. Doug Janzen for a two year term ending February 28, 2015 for management services as the President of the Company at a monthly rate of $10,000, except for the first two months at a monthly rate of $4,250.

[b] Two companies controlled by two different directors, Mr. Peter Wilson and Mr. K. Charlie Perperidis, for financial consulting services at a monthly rate of $4,000 each. Both agreements have a two-year term ending April 30, 2015.

13. SUBSEQUENT EVENTS

[a] Operating lease

On January 1, 2014, the Company entered into an office sharing agreement for its office premise in Vancouver, B.C., Canada for a term expiring on March 31, 2018. Pursuant to this agreement, the Company is obligated to pay minimum monthly lease payment of $9,048 excluding good and services taxes and has a right to terminate the agreement by giving the other party a 90-day written notice following January 1, 2015.

[b] Clinical research and development agreement

On May 23, 2014, the Company entered into a development agreement with Corium International Inc which requires the Company to fund research and development expenditures of $703,040 (US$661,000). Of these commitments, $277,600 (US$261,000; paid US$86,000) and $425,440 (US$400,000) are non-cancellable and cancellable for fiscal year ending December 31, 2014, respectively.

13. SUBSEQUENT EVENTS (cont'd)

[c] Common share purchase warrants

On March 9, 2014, the Company provided notices to its common share warrant holders *[note 8 [b]]* that the Company would enter into a development and manufacturing agreement. As such, the expiry date of the common share warrants would be accelerated to July 4, 2014 pursuant to the terms of the private placements closed in June and September 2013 *[note 8 [a][iv] and [v]]*. Concurrently, warrant holders were given offers until April 11, 2014 for early exercises. The proposed terms were lower exercise price at $0.55 instead of $0.65 per common share and the right to transfer warrant in exchange for an earlier expiry date of May 5, 2014 (the "Offer").

Warrant holders of 817,857 warrants accepted the Offer resulting in 586,961 warrants being exercised into common shares and 230,896 warrants expired on May 5, 2014. The remaining 1,862,999 warrants expired on July 4, 2014.

[d] Private placement

On July 11, 2014, the Company closed a private placement of common shares. The Company issued 415,780 common shares at a price of $0.55 per common shares for total gross proceeds of $228,680.