MANAGEMENT'S DISCUSSION AND ANALYSIS
For the period from January 3, 2013 (date of inception) to December 31, 2013

*This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") for the period from January 3, 2013 (date of inception) to December 31, 2013 is as of February 18, 2015. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. This MD&A should be read in conjunction with the Company's audited financial statements for the period from January 3, 2013 (date of inception) to December 31, 2013 and the related notes thereto ("**Annual Financial Statements**"). The Company's Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts are expressed in Canadian dollars unless otherwise indicated.*

This MD&A may contain certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws. Please refer to the discussion of forward-looking statements set out under the heading "Forward-Looking Statements", located elsewhere in this Prospectus. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements. See also those factors listed under the heading "Risk Factors", above, for a discussion of the risks inherent in our business which may also affect our continuing financial condition, cash flows and operating results.

OVERVIEW OF THE COMPANY

Aequus is a Vancouver-based, specialty pharmaceutical company primarily focused on the development and commercialization of long-acting alternatives to currently approved drugs that are limited by non-compliance, high-frequency dosing, first-pass metabolism side effects or painful injections. The Company's initial product candidates are focused around Central Nervous System ("**CNS**") disorders, where non-compliance with use and dosage instructions has particularly severe consequences to patients. Aequus' lead product candidate, AQS-1301, is expected to be a once-weekly transdermal formulation of aripiprazole that is currently in pre-clinical development.

Company History

The Company was incorporated under the name "Aequus Pharmaceuticals Inc." pursuant to the *Business Corporations Act* (British Columbia) on January 3, 2013. At incorporation the Company issued 15,000,000 common shares in the capital of the Company (each, a "**Common Share**") to its founders and appointed Mr. Doug Janzen as its President. Between February 25, 2013 and April 30, 2013, Aequus completed a private placement and issued an aggregate of 6,686,750 Common Shares, for $0.04 per Common Share for aggregate gross proceeds of $267,470.

On March 1, 2013, the Company engaged Ms. Anne Stevens as its senior management consultant and began reviewing a number of different transdermal programs and patents with the goal of in-licensing or acquiring a suitable candidate to develop. This diligence included both commercial and clinical assessments by Ms. Stevens and Mr. Janzen. Aequus used third-party law firms to conduct intellectual property diligence, and conducted specific physician and patient diligence on the aripiprazole program.

On April 22, 2013, Aequus engaged Dr. Don McAfee, an accomplished scientist and drug developer with extensive experience in the development of the approved rotigotine transdermal patch for Parkinson's disease, as its scientific advisor. Concurrently, Aequus began approaching North American entities with U.S. Food and Drug Administration ("**FDA**") approved transdermal manufacturing

facilities with the goal of finding a manufacturer who could produce Aequus' aripiparazole patch for clinical studies and eventual commercialization.

On June 3, 2013, Aequus subdivided its existing Common Shares on the basis of one pre-subdivision Common Share for 2.5 post-subdivision Common Shares. All references in this MD&A to Aequus' Common Shares, warrants, options and per share amounts give effect to the Common Share subdivision, unless stated otherwise.

On July 30, 2013, Aequus formalized its in-licensing of exclusive worldwide rights for the intellectual property enabling a transdermal formulation of aripiprazole for all uses from Transdermal Pharma Research Laboratories LLC ("**TRPL**"). On August 1, 2013, Aequus and TRPL entered into a Research Service Contract (the "**Research Service Contract**"). The Research Service Contract covers formulation work in connection with the aripiprazole formulation and other pipeline programs as directed by Aequus.

In June of 2013, Aequus entered into a confidentiality agreement with Corium International, Inc. ("**Corium**") and began discussions regarding establishing a manufacturing relationship.

On June 20, 2013 and September 10, 2013, Aequus issued an aggregate of 2,680,856 units, with such units consisting of 2,680,856 Common Shares and 2,680,856 Common Share purchase warrants (the "**2013 Warrants**"), in two tranches for aggregate gross proceeds of $938,300 to support the development of Aequus' initial product candidate, AQS-1301.

Events subsequent to December 31, 2013

The following significant corporate events have taken place in relation to Aequus since December 31, 2013:

- On March 9, 2014, in anticipation of executing a development agreement with Corium, Aequus made an offer to amend the terms of its outstanding 2013 Warrants to, among other things, reduce the exercise price of the 2013 Warrants from $0.65 to $0.55, and such offer was accepted by certain 2013 Warrant holders.

- On May 23, 2014, Aequus entered into a development agreement with Corium (the "**Development Agreement**") whereby both parties would collaborate on the evaluation and development of AQS-1301. On the same date, Aequus and Corium agreed to negotiate a multi-product collaboration (the "**Multi-product Collaboration Agreement**" or "**Collaboration Agreement**") to co-fund and develop additional transdermal products. The Company and Corium have since agreed to a non-binding term sheet with respect to the anticipated Collaboration Agreement. Shortly after the execution of and pursuant to the Development Agreement, Aequus began the technology transfer process with Corium and transferred all Aequus' clinical and technical data, along with certain analytical methods and materials, to Corium. In July, a research plan was created as part of the Development Agreement by Aequus and Corium setting out the development objectives for AQS-1301, and in August, a joint development committee, consisting of members from both Aequus and Corium, was established to govern the ongoing development of the aripiprazole program.

- On May 30, 2014, after entering into the Development Agreement with Corium, Aequus exercised its right to accelerate the exercise period of the 2013 Warrants and received $322,828 cash proceeds. On July 4, 2014, all remaining unexercised 2013 Warrants expired.

- On June 1, 2014, the Company and TRPL entered into an amendment agreement to remove Aequus' obligations of future royalty payments under a license agreement between the Company and TRPL dated July 30, 2013 (the "**License Agreement**").

- On July 11, 2014, Aequus issued an aggregate of 415,780 Common Shares for $0.55 per Common Share for aggregate gross proceeds of $228,680 (the "**July 2014 Financing**").

- On October 20, 2014, Ms. Stevens was appointed as director and Vice President, Corporate Development of the Company, and Dr. McAfee was appointed as Acting Chief Scientific Officer of the Company.

- On November 20, 2014, Aequus completed the offering of 7,618,780 special warrants (the "**Special Warrants**") at a price of $0.55 per Special Warrant, for aggregate gross proceeds of $4,190,329 (the "**Offering**"). The Special Warrants were issued pursuant to the terms of a special warrant indenture dated November 20, 2014 between the Company and Computershare Trust Company of Canada. 6,706,010 of the Special Warrants were issued in accordance with an agency agreement dated November 20, 2014 among the Company, Clarus Securities Inc. ("**Clarus**") and Cormark Securities Inc. ("**Cormark**"). The remaining 912,770 Special Warrants were issued through a concurrent non-brokered portion of the Offering. In addition, Clarus and Cormark, as agents for the brokered portion of the Offering, as well as certain registrants comprising the selling group and a finder, were granted an aggregate of 425,521 special agents' warrants.

- On December 10, 2014, Mr. Janzen was formally appointed as Chairman and Chief Executive Officer ("**CEO**") of the Company, and Ms. Christina Yip was appointed as Acting Chief Financial Officer ("**CFO**") of the Company.

- On December 17 and December 23, 2014, Aequus and the investors in the July 2014 Financing entered into amending agreements for the July 2014 Financing providing for the issuance of one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "**Warrant**") for each Common Share subscribed for in the July 2014 Financing. The Company issued an aggregate of 207,890 Warrants to the investors in the July 2014 Financing. Each Warrant is exercisable to acquire one Common Share at an exercise price of $0.75 for a period of 24 months following the date of issuance of the Warrant. The Company has a right to accelerate the exercise period of the Warrants upon meeting certain conditions.

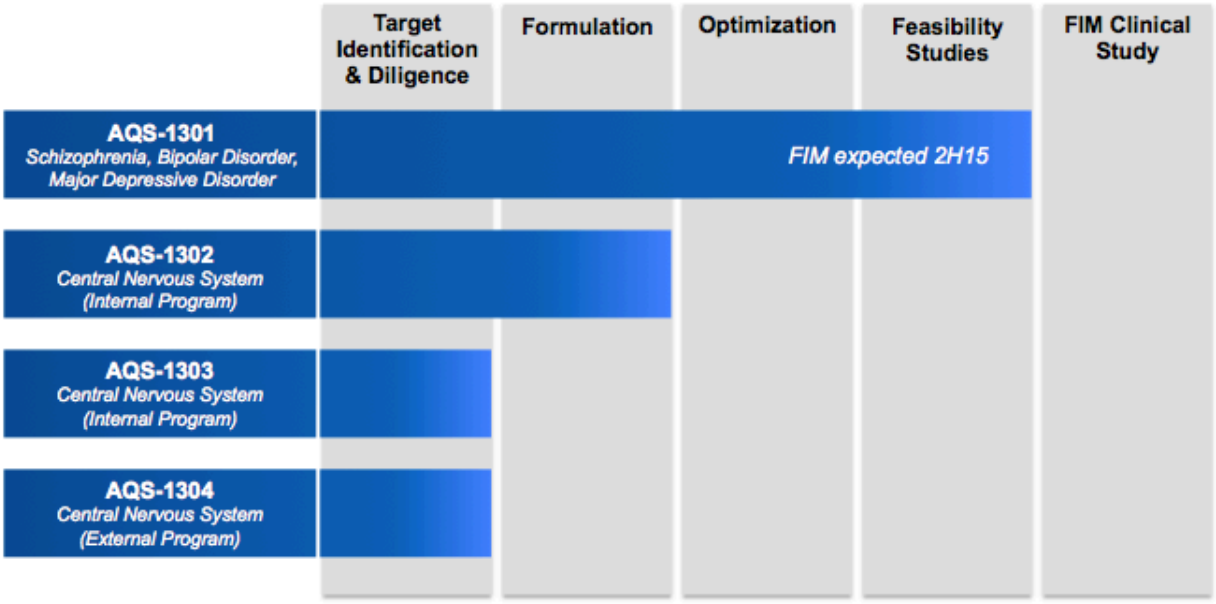
- On December 17, 2014, Aequus issued an aggregate of 605,000 units, each unit consisting of one Common Share and one-half of one Warrant, for $0.55 per unit for aggregate gross proceeds of $332,750 (the "**December 2014 Financing**").

Aequus' Products and Development

The active ingredient in Aequus' lead product candidate, AQS-1301, is aripiprazole, a unique atypical antipsychotic insofar as, rather than being a dopamine 2 ("**D2**") receptor blocking agent, it is a partial agonist or stimulant at D2 receptors. Aripiprazole is also a partial agonist or stimulant at 5-HT 1a serotonin receptors, as well as blocking or antagonizing the 5-HT 2a receptor. Based on its unique mechanism of action compared to other antipsychotics, namely partial D2 receptor stimulation, it has been found to be sparing in terms of its propensity to cause parkinsonism. Studies have reported rates of antipsychotic-induced parkinsonism, an extrapyramidal symptom, to be lower in those treated with aripiprazole then those treated with a placebo. Nonetheless, all atypical antipsychotics can cause any given side effect with varying rates and severity.

AQS-1301 is designed to consistently deliver aripiprazole over a seven-day period at levels comparable to currently marketed once-daily formulations. By delivering aripiprazole over seven days in a comfortable, convenient and easy-to-use weekly patch, AQS-1301 is intended to promote enhanced patient compliance.

In addition to AQS-1301, Aequus is developing a pipeline of other CNS product candidates that specifically benefit from the various attributes that transdermal and other long-acting delivery systems can confer. The following table summarizes the current status of Aequus' main product candidates:



The development of a new dosage form for an already approved drug, such as a change from a solid oral dosage form to a transdermal patch, can rely to some extent on previous safety and/or efficacy data provided by the literature or can reference past findings of safety and effectiveness for the approved drug according to a Section 505(b)(2) New Drug Application ("**NDA**") with the FDA. Thus, the development timelines and costs associated with the studies required to be conducted by Aequus for approval of a transdermal formulation of aripiprazole under the 505(b)(2) regulatory pathway in the U.S. (and equivalent approval pathways in other jurisdictions) would be less than what is required for a new chemical entity.

Aequus' Development Program

Aequus has initiated pre-clinical studies to determine the optimal formulation for a once-weekly, transdermal aripiprazole patch with its development and manufacturing partner, Corium, and anticipates enrolling its first patient in a non-IND Phase 1a Proof of Concept ("**POC**") clinical trial in the first half of 2015 (see "*Clinical Development*", below). In accordance with Aequus' Development Agreement with Corium, Corium is anticipated to have an option to co-fund clinical development under the terms of an anticipated Collaboration Agreement. Pursuant to the non-binding term sheet that Aequus and Corium have agreed to with respect to the anticipated Collaboration Agreement, Aequus anticipates Corium's co-funding to be up to 50% of the clinical program following review of the non-IND Phase 1a POC clinical trial results and in return, Corium would participate in a higher level of the economics of the sales or licensing revenues accordingly.

Aequus anticipates filing a Section 505(b)(2) NDA with the FDA for approval of AQS-1301, which is required before marketing a new drug in the U.S. A Section 505(b)(2) NDA relies in part on clinical trials that Aequus needs to conduct, and in part on third-party findings of safety and efficacy for the active ingredients for which Aequus has not obtained a right of reference or which have been established in the scientific literature in the public domain.

Aequus expects to commercialize AQS-1301 in the U.S. and the rest of the world, if approved by the FDA and other relative regulatory bodies for commercial sales, via a third party commercial partner or partners. However, Aequus may retain commercialization rights in certain territories, such as Canada, where it may commercialize the product through a direct specialized sales force should AQS-1301 be approved for sale in those jurisdictions.

Clinical Development

Non-IND Phase 1 Proof of Concept and Phase 1 Bioequivalence study

Aequus, along with its key advisors, expects to design and execute a small non-IND Phase 1 POC study to determine the pharmacokinetic profile of AQS-1301 in healthy subjects. This physician sponsored study is expected to enroll 5 – 6 subjects. We anticipate initiating this study in Q2 of 2015. This study will determine the unit flux and the duration of flux that remains relatively constant. Once the flux/sqcm is known and the duration of time that the patch delivers a constant flux of drug, it will be possible to establish the appropriate patch sizes for clinical and commercial manufacture and to fix the reservoir volume to deliver the drug over a defined period of seven days. The POC study is not expected to take more than two months to complete.

Following completion of the POC study, patches with the specifications derived from the POC study will be manufactured and a clinical trial site will be established in the US or Canada to conduct a study suitable to support a NDA 505(b)(2) submission. Aequus expects to engage a clinical Contract Research Organization to complete the design and conduct of these trials.

The Phase 1 Bioequivalence study is currently expected to enroll approximately 30 healthy subjects. We anticipate subjects will be exposed to a single dose of AQS-1301 to determine the bioequivalence of our target product profile over a seven day period. This Phase 1 Bioequivalence study is not expected to take more than three months to complete.

Phase 2 Registration study

In order to obtain regulatory approval, the Company will be required to carry out at least one Registration study with at least several hundred patients. The target patient population will be dependent on the advice of our clinical advisors and the results from the POC and Bioequivalence Phase 1 studies. For the Phase 2 Registration study, we anticipate patients will be exposed to AQS-1301 over a 28-day period. This study is expected to take approximately one year to complete. Aequus intends to have a third party development collaborator or commercialization partner engaged prior to initiating this study to support the funding requirements of this study.

Clinical Development Timeline

Aequus plans to advance the development of AQS-1301 through to completion of the Phase 1 Bioequivalence study and AQS-1302 through formulation development in the next two years. Concurrent with the Phase 1 clinical programs for AQS-1301, Aequus anticipates engaging in partnering discussions to advance AQS-1301 through the Phase 2 Registration study. The following table

summarizes our current development plan and estimates of costs for AQS-1301 and AQS-1302 for the next two years.

Table 1 – Planned Development Timeline

Program	Development Milestone	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Cost (Cdn$)
AQS-1301	Formulation and optimization									$ 450,000
	Phase 1a Proof of Concept									300,000
	Phase 1b Bioequivalence									600,000
	Phase 2 Registration Study preparation									100,000
	Phase 2 Registration Study[(1)]									
AQS-1302	Formulation development									180,000
	Pre-clinical and clinical program[(1)]									
All programs	Patent conversions and applications									100,000
										$ 1,730,000
Business development, corporate development and administration										1,274,033
										$ 3,004,033

Notes:
(1) Anticipate funding through partnership or licensing arrangement.

The Company's product development progress is contingent upon a number of factors. See the heading "*Risk Factors*" in the Prospectus to which this MD&A is attached. There can be no assurances that Aequus will complete each stage of development in accordance with the timelines and estimated costs set out above, or at all.

Steps to Reach Commercial Production

In order for AQS-1301 and AQS-1302 to reach commercial production, the Company anticipates the following additional steps. With respect to AQS-1301, a (i) registration study; and (ii) a regulatory application with the FDA for commercial approval, will both be required. The Company anticipates achieving commercial production of AQS-1301 in Q3 2017 at an additional cost of $32,500,000.

With respect to AQS-1302, a (i) formulization optimization; (ii) a Phase 1a POC study; (iii) a Phase 1b Bioequivalence study; (iv) a registration study; and (v) a regulatory application with the FDA for commercial approval, will be required. The Company anticipates achieving commercial production of AQS-1302 in Q2 2018 at an additional cost of $33,770,000.

Aequus' Business Strategy

Aequus' goal is to provide patients with long-acting alternatives to currently approved drugs where non-compliance can result in clinically significant consequences to patients. In order to accomplish this objective for its lead program, Aequus intends to advance AQS-1301 through clinical development as described above. Aequus anticipates being engaged in licensing and business development discussions during Phase 1 clinical studies in order to seek a third party collaborator that will advance AQS-1301 from the Phase 2 Registration study through to approval.

Aequus has identified three key areas of potential growth over the next 24 months:

New Routes of Delivery. While Aequus' initial focus is on transdermal routes of delivery to leverage its internal expertise, Aequus believes there is an opportunity to expand its product pipeline to include reformulated drugs using alternate routes of delivery through entering into additional strategic development partnerships.

New Pipeline Programs. Currently, Aequus has one pre-clinical and three formulation-stage programs and it currently anticipates adding one to two new programs to its product pipeline every six months. These additions may be through the advancement of internal programs, in-licensing intellectual property or acquiring external assets.

New Therapeutic Areas. Aequus is initially focused on building its CNS portfolio with targeted end-users which the Company expects will allow it to partner with or develop a specialty sales force in certain territories. Should the CNS portfolio grow to three to four programs as Aequus currently expects, Aequus anticipates expanding into new therapeutic areas to broaden its pipeline focus.

OVERALL PERFORMANCE

Since its inception in January 2013, Aequus had accumulated a deficit of $1,629,276 as at December 31, 2013. The Company has not generated any revenue from product sales to date and does not expect to generate any revenues until it licenses out, partners or commercializes its current product candidates and any product candidates it may advance in the future. Aequus expects its operating losses to continue as it invests in its product development, with primary focus for the next two years on AQS-1301, AQS-1302, AQS-1303, and AQS-1304.

The Company has funded its operations with proceeds from equity financings, and expects to seek additional funding through equity financings and partnership collaborations to finance its product development and corporate growth. However, if Aequus' product development activities do not show positive progress, or if capital market conditions in general or with respect to the life sciences sector or development stage companies such as Aequus are unfavorable, its ability to obtain additional funding will be adversely affected.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth selected financial information for the period from January 3, 2013 (date of inception) to December 31, 2013 (the "**Fiscal 2013**"). The selected financial information set out below has been derived from the Annual Financial Statements and accompanying notes, in each case prepared in accordance with IFRS. The Annual Financial Statements have been audited by Aequus' auditors, Crowe MacKay LLP. The selected financial information set out below may not be indicative of the Company's future performance. The following discussion should be read in conjunction with the Annual Financial Statements.

	Fiscal 2013 **$**
Total revenue	—
Net loss for the period	(1,629,276)
Per share loss, basic and fully diluted	(0.08)
Total assets	337,331
Total long-term debt	—
Cash dividend declared per Common Share	—

Discussion of Operations

Aequus recorded a net loss of $1,629,276 ($0.08 per Common Share) in Fiscal 2013. The net loss was attributable to the Company's total operating expenditures of $1,655,441, which was partly offset by other income of $26,165. Key operational activities in Fiscal 2013 were in-licensing of certain

intellectual property from TRPL, product development of AQS-1301, fund raising and general corporate development.

	Fiscal 2013 $
Research and development expenses	1,017,839
General and administration expenses	637,602
Total operating expenses and loss before other income	(1,655,441)
Other income	26,165
Net loss	**$(1,629,276)**

Revenues

Aequus did not generate any revenue from product sales in Fiscal 2013 or expects any revenues until it licenses out, partners or commercializes its current product candidates and any product candidates it may advance in the future.

Research and Development Expenses

Aequus incurred total research and development expenses of $1,017,839 in Fiscal 2013. Since its inception in January 2013, Aequus had focused its resources on its research and development activities. The Company's initial mandate was to in-license or to acquire a suitable transdermal product candidate to develop. Its search efforts led to the successful in-licensing of exclusive worldwide rights for the intellectual property enabling a transdermal formulation of aripiprazole for all uses from TRPL in July 2013. The Company paid TRPL licensing fees and other related costs of $310,790, as well as subcontract research costs of $31,079 in Fiscal 2013. Aequus used subcontractors and consultants to support its operations. Expenses paid to intellectual property advisors and patent filing costs were $115,800. Product development consultants were paid in cash, stock options or combination thereof, and Aequus' scientific founders were granted Common Shares (the "**Scientific Founder Shares**") at Aequus' inception. In Fiscal 2013, the Company incurred consulting fees of $76,613 and recorded share-based payments of $463,884 in connection with the grants of stock options and the Scientific Founder Shares. The following table summarizes Aequus' research and development expenditures in Fiscal 2013:

	Fiscal 2013 $
Patent and intellectual property protection costs	115,800
Consulting fees	76,613
Licensing fees and technology transfer costs	310,790
Share-based payments	463,884
Subcontract research and development	31,079
Travel and accommodation	19,673
	$1,017,839

General and Administration Expenses

General and administration expenses were $637,602 in Fiscal 2013. Aequus used consultants to develop and manage its business. These consultants were paid in cash, stock options, or combinations thereof. Business founders were granted Common Shares (the "**Business Founder Shares**", and together with the Scientific Founder Shares, the "**Founder Shares**") at the Company's inception. The Company incurred consulting and management fees of $153,000 and recorded share-based payments of $250,706 in connection with the grants of stock options and the Business Founder Shares. Legal and professional

fees to support its business contracts and corporate matters were $97,628. Aequus maintained its head-office at a shared facility and incurred $62,718 of rent and telephone expenses in Fiscal 2013. The following table summarizes the Aequus' general and administration expenditures in Fiscal 2013:

	Fiscal 2013 **$**
Consulting and management fees	153,000
Office and others	33,947
Legal and professional fees	97,628
Rent and telephone	62,718
Share-based payments	250,706
Travel and accommodation	39,603
	$637,602

QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected unaudited consolidated financial data for each of the last four quarters, prepared in accordance with IFRS:

	Quarter Ended			
	December 31, 2013	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**
	("Q4 2013") **$**	**("Q3 2013")** **$**	**("Q2 2013")** **$**	**("Q1 2013")** **$**
Revenue	—	—	—	—
Research and development expenditures	180,298	141,015	282,614	413,912
General administration expenditures	170,898	106,990	118,674	241,040
Other income	9,937	10,780	5,448	—
Net loss for the period	(341,259)	(237,225)	(395,840)	(654,952)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.02)	(0.04)

Variations in the Company's net losses and expenses for the periods above resulted primarily from the following factors:

- The Company recorded $594,000 of share-based payments in connection with the issuance of the Founder Shares to Aequus' scientific and business founders at a deemed value of $0.0004 per Common Share in January 2013. This led to a higher net loss in Q1 2013 as compared to other periods. Otherwise, Q1 2013 net loss excluding the share-based payment was $60,952. Based on its co-founders' functions within the organization, the Company allocated these share-based payments as research and development expenses ($400,207) and general and administration expenses ($193,793).

- Net loss in Q2 2013 and Q3 2013 included the licensing fees paid to TRPL. More than half of the licensing fees paid to TRPL were incurred in Q2 2013. As a result, the Company recorded a higher net loss in Q2 2013 as compared to Q3 2013 and Q4 2013.

- In general, research and development expenditures trended upwards as Aequus expanded its product development activities following its inception in January 2013. These expenditures

fluctuated from quarter to quarter primarily due to the recognition of share-based payments in connection with the Founder Shares as discussed above, as well as a grant of stock options in December 2013. Licensing fees to TRPL, mainly incurred in Q2 2013, also contributed to variations in research and development expenditures.

- In general, general administration expenses trended upwards as the Company added personnel and built its infrastructure to develop its businesses. These expenses varied during the above periods due to the recognition of share-based payments discussed above as well as expenses incurred in connection to grants of stock options in May and December 2013.

- General administration expenses varied due to the recognition of share-based payments in connection with Founder Shares as discussed above, as well as the granting of stock options in May and December 2013.

- Other income was derived from foreign exchange gains in connection with (i) the receipt of US dollars for contract terms denominated in Canadian dollars; and (ii) the conversion of US dollar denominated cash balances, resulting from the strengthened US dollar against the Canadian dollar.

Fourth Quarter

Aequus recorded a net loss of $341,259 ($0.01 per Common Share) in Q4 2013. The net loss was attributable to the Company's total operating expenditures of $351,196, which was partly offset by other income of $9,937. Of the total operating expenditures, $180,298 was in research and development expenditures and $170,898 was in general administration expenditures. Key operational activities during fourth quarter were the product development of AQS-1301 and fund raising.

Research and development expenditures in Q4 2013 were $180,298 summarized as follows:

	Q4 2013
	$
Patent and intellectual property protection costs	34,030
Consulting fees	26,703
Licensing fees and technology transfer costs	29,382
Share-based payments	57,018
Subcontract research and development	31,079
Travel and accommodation	2,086
	$180,298

General administration expenditures in Q4 2013 were $170,898 summarized as follows:

	Q4 2013
	$
Consulting and management fees	55,125
Office and others	7,692
Legal and professional fees	39,184
Rent and telephone	18,691
Share-based payments	36,934
Travel and accommodation	13,272
	$170,898

LIQUIDITY AND CAPITAL RESOURCES

The Company's operational activities during Fiscal 2013 were financed mainly by equity financings. At December 31, 2013, Aequus had cash and cash equivalents of $311,732 and working capital of $273,853. Subsequent to December 31, 2013, the Company completed the July 2014 Financing, the Offering and the December 2014 Financing for gross proceeds of $228,680, $4,190,329 and $332,750, respectively (collectively, the "**Subsequent Financings**").

Management believes that the Company's cash position and cash inflows from the Subsequent Financings will be sufficient to finance Aequus' operational and capital needs for at least eighteen months from the date of this MD&A. However, Aequus' future cash requirements may vary materially from those now expected due to a number of factors, including the costs associated with product development, clinical trials, and strategic opportunities. As a result, it may be necessary to raise additional funds prior to the date currently expected. These funds may come from sources such as entering into strategic collaboration arrangements, the issuance of shares from treasury, or alternative sources of financing. However, there can be no assurance that the Company will successfully raise funds to continue the development and commercialization of AQS-1301 or other product candidates in its pipeline.

Sources and Uses of Cash

	Fiscal 2013 **$**
Cash used in operating activities	(876,058)
Cash used in investing activities	(7,491)
Cash provided by financing activities	1,195,281
Net increase in cash and cash equivalents	$311,732

Cash used in operating activities in Fiscal 2013 was $876,058 which was comprised of a net loss of $1,629,276, add-backs of non-cash expenses of $715,339, and net change in non-cash working capital items of $37,879. The non-cash expenses were primarily related the share-based payments in connection to issuance of the Founder Shares and stock options as discussed above. Cash used in investing activities in Fiscal 2013 was $7,491 resulting from the purchase of office furniture and equipment.

Cash provided by financing activities in Fiscal 2013 was $1,195,281. During Fiscal 2013, Aequus completed three private placements (including the Company's initial financing) raising net proceeds of $1,195,281:

	Fiscal 2013 **$**
Net proceeds from:	
Initial private placement involving founders [(i)]	6,000
Private placement closed on:	
February 25, 2013 to April 30, 2013[(ii)]	267,470
June 30 and September 10, 2013[(iii)]	921,811
Cash provided by financing activities	$1,195,281

(i) On January 3, 2013 following its inception, the Company issued the Founder Shares, which consisted of 15,000,000 Common Shares at a deemed value of $0.0004 per share, to its co-

founders. In connection with the issuance of the Founder Shares, the Company recognized share-based payments of $594,000 related to the fair value of the shares issued. The fair value of the share-based payment was measured as the difference between share price issued to an 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 the private placement and issued 6,686,750 Common Shares at a price of $0.04 per Common Share between February 25, 2013 and April 30, 2013.

(iii) On June 20 and September 10, 2013, the Company completed private placements of an aggregate of 2,680,856 units at a price of $0.35 per unit for total gross proceeds of $938,300. Each unit consisted of one Common Share and one 2013 Warrant. Each 2013 Warrant entitled the holder thereof to purchase one Common Share of the Company at $0.65 per share for a term of 24 months. The Company had the right to accelerate the expiry date of the 2013 Warrants if it entered into a development and manufacturing agreement prior to the expiry of the 2013 Warrants. With respect to this offering of units, the Company incurred $16,489 in share issuance costs.

OUTSTANDING SHARE CAPITAL

As of February 18, 2015, there were no Class A Preferred shares issued and outstanding, 25,975,347 Common Shares issued and outstanding and other securities convertible into Common Shares as summarized in the following table:

	Number outstanding as of February 18, 2015
Common Shares issued and outstanding	25,975,347
Class A Preferred Shares	Nil
Options	2,597,337
Warrants	510,390
Special Warrants[(1)]	7,618,780
Agents' Special Warrants[(2)]	425,521

Notes:
(1) Each Special Warrant entitles the holder thereof to acquire one Common Share and one-half of one Common Share purchase warrant, subject to certain conditions. See the heading "*Plan of Distribution*" in the Prospectus of the Company to which this MD&A is attached.
(2) Each Agents' Special Warrant entitles the holder thereof to acquire, one agents' warrant. Each such agents' warrant is exercisable to acquire one Common Share and one-half of one Common Share purchase warrant, subject to certain conditions. See the heading "*Plan of Distribution*" in the Prospectus of the Company to which this MD&A is attached.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources that is material to investors.

RELATED PARTY TRANSACTIONS

[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 the Research Service Contract, the Company paid TRPL licensing fees of $310,790 and subcontract research costs of $31,079 in Fiscal 2013. TRPL was founded by Dr. Fotios Plakogiannis, President of TRPL, and Dr. Rodoula Plakogiannis, director of TRPL, to hold certain intellectual property assigned to TRPL from Alpha and Omega Pharmaceutical Consultants Inc., a company owned by Dr. Fotios Plakogiannis. Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis are responsible for directing and managing the research and business operations of TRPL and own a combined 58.2% of TRPL. Dr. Fotios Plakogiannis invited Charlie Perperidis, Peter Wilson, Mr. Janzen, Alex Goumeniouk and Ms. Stevens to join TRPL, and those individuals now hold the remaining 41.8% of TRPL. Mr. Janzen was appointed a director of TRPL on March 3, 2013. Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis were appointed as directors of Aequus on January 3, 2013 and October 20, 2014, respectively.

[ii] The Company paid $88,500 in management fees to a company owned by Mr. Janzen and $64,000 in consulting fees to companies owned by Mr. Wilson and Mr. Perperidis. Subsequent to December 31, 2013, Mr. Wilson and Mr. Perperidis resigned as directors of Aequus on October 20, 2014.

[iii] Share based payments related to the 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

The Company has the following key management contracts:

[i] During the period ended December 31, 2013, Aequus entered into a two year contact with a company controlled by Mr. Janzen for management services as the President and CEO of the Company at a monthly rate of $10,000, except for the first two months of the agreement, which was at a monthly rate of $4,250. Subsequent to December 31, 2013, this agreement was superseded by a management services agreement effective September 1, 2014 (the "**Management Services Agreement**") among the Company, Northview Ventures and Associates General Partnership ("**Northview**"), Mr. Janzen and Ms. Stevens. Pursuant to this open-ended agreement, Northview provides management services of its employees, including but not limited to Mr. Janzen and Ms. Stevens, direct the affairs and manage the Company's business. In consideration for the services provided by Northview, Aequus is obligated to pay a monthly base management fee of $27,000 and reimburse all expenses incurred by Northview, which are authorized in advance by the Company, expressly for the purpose of providing the services at cost. In addition, Aequus is required to pay Northview incentive bonuses upon completion of the following milestones specified in the Management Service Agreement:

- $40,000 upon execution of the final Collaboration Agreement with Corium;
- $50,000 upon the occurrence of new programs beginning development with Corium;

- $60,000 upon the listing for trading of the Common Shares on the Toronto Stock Exchange, TSX-V or other recognized stock exchange in North America having listed standards substantially similar to the TSX-V;

- $50,000 upon the completion of any offering of securities of Aequus raising aggregate gross proceeds of more than $2,000,000 at any time while the Common Shares are listed for trading on the Toronto Stock Exchange, TSX-V or other recognized stock exchange in North America having listed standards substantially similar to the TSX-V;

- Ten percent of the consideration paid to Aequus, up to a maximum of $100,000, paid upon the execution by Aequus and a third party of any agreement for the licensing, sale, or assignment of an Aequus pipeline product; and

- Two percent of any consideration paid to Aequus in a transaction pursuant to which (i) there is a sale of all or substantially all of the business, assets or undertaking of Aequus, (ii) any person or group of persons "acting in concert" (as interpreted in accordance with applicable securities legislation) shall have acquired legal or beneficial ownership of, or the power to exercise control or direction over, the Common Shares representing more than 50% of the total number of Common Shares of Aequus then outstanding, (iii) there is consummated any amalgamation, merger, arrangement, consolidation or other reorganization or acquisition involving Aequus or any of its subsidiaries and another company or other entity, as a result of which the holders of Common Shares prior to the completion of the transaction hold less than 50% of the issued and outstanding shares of the successor company after completion of the transaction or (iv) any other transaction having similar effect.

[ii] Subsequent to December 31, 2013, the Company entered into a consulting services agreement (the "**Consulting Services Agreement**") with Keenvision Consulting Inc. ("**Keenvision**") and Ms. Yip. Pursuant to the Consulting Services Agreement, Keenvision provides management services at a monthly rate of $8,000 for a two year term ending November 30, 2016, and Keenvision's employees, including, but not limited, to Ms. Yip, provide the financial services including those normally assumed by the CFO of a publicly listed company.

PROPOSED TRANSACTIONS

There are at present no transactions outstanding that have been proposed but not approved by either the Company or regulatory authorities.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

[a] New Standards Recently Adopted

The following is an overview of new accounting standards adopted by the Company subsequent to December 31, 2013. Adoption of these standards on their effective dates had no impact on the Company's financial statements.

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

1, 2014. This standard was adopted by the Company on January 1, 2014 and had no impact on the Company's financial statements.

- **IAS 36** - *Impairment of Assets.* The standard was effective for annual periods beginning on or after January 1, 2014. This standard was adopted by the Company on January 1, 2014 and had no impact on the Company's financial statements.

[b] 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.

FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments at December 31, 2013 consist of the following:

	December 31, 2013 $
Financial assets	
Cash	311,732
Amounts receivable	8,596
Financial Liabilities	
Accounts payable and accrued liabilities	56,736

The Company has designated its cash as fair value through profit or loss, 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.

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.

[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 cash and cash equivalents 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. Subsequent to December 31, 2013, the Company completed three private placements on July 11, 2014, November 20, 2014 and December 17, 2014 for gross proceeds of $228,680, $4,190,329, and $332,750, respectively.

[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 rate 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 income and comprehensive income.