MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of April 30, 2015

For the year ended December 31, 2014

*This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the year ended December 31, 2014 and is performed by management using information available as of April 30, 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 year ended December 31, 2014 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 contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws that may not be based on historical fact, including, without limitation, statements containing the words "believe", "may", "plan", "will", "estimate", "continue", "anticipate", "intend", "expect" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include but are not limited to statements relating to:

- *the intention to enrol patients in a non-IND Phase 1a Proof of Concept clinical trial for our transdermal aripiprazole patch;*
- *the intention to enter into the Collaboration Agreement (as defined herein) with Corium International, Inc. ("**Corium**") to co-fund and develop additional transdermal products;*
- *the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;*
- *our ability to advance product candidates into, and successfully complete, clinical trials;*
- *our ability to recruit sufficient numbers of patients for our future clinical trials;*
- *our ability to achieve profitability;*
- *our ability to obtain funding for our operations, including research funding;*
- *the Company's ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;*
- *whether our third party collaborators will maintain their intellectual property rights in the technology we license;*
- *the manufacturing capacity of third-party manufacturers for our product candidates;*
- *the implementation of our business model and strategic plans;*
- *our ability to develop and commercialize product candidates;*
- *our commercialization, marketing and manufacturing capabilities and strategy;*
- *our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;*
- *our expectations regarding federal, provincial and foreign regulatory requirements;*

- *whether the Company will receive, and the timing and costs of obtaining, regulatory approvals in the U.S., Canada, the European Union and other jurisdictions;*
- *the therapeutic benefits, effectiveness and safety of our product candidates;*
- *the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our products and product candidates;*
- *the rate and degree of market acceptance and clinical utility of our future products, if any;*
- *the timing of, and our ability and our collaborators' ability, if any, to obtain and maintain regulatory approvals for our product candidates;*
- *our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;*
- *our ability to engage and retain the employees required to grow our business;*
- *the compensation that is expected to be paid to employees of the Company;*
- *our future financial performance and projected expenditures;*
- *developments relating to our competitors and our industry, including the success of competing therapies that are or become available; and*
- *estimates of our expenses, future revenue, capital requirements and our needs for additional financing.*

Such statements reflect our current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Aequus, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including, but not limited to: (i) obtaining positive results of clinical trials; (ii) obtaining regulatory approvals; (iii) general business and economic conditions; (iv) the Company's ability to successfully out-license or sell its current products and in-license and develop new products; (v) the assumption that our current good relationships with our manufacturer and other third parties will be maintained; (iv) the availability of financing on reasonable terms; (vii) the Company's ability to attract and retain skilled staff; (viii) market competition; (ix) the products and technology offered by the Company's competitors; and (x) the Company's ability to protect patents and proprietary rights.

*In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined under the heading "Risk Factors" in the Company's prospectus ("**Prospectus**") filed on SEDAR (www.sedar.com) on February 19, 2015. Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.*

All references to dollars ($) in this MD&A are expressed in Canadian funds, unless otherwise indicated.

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.

Significant events during the year ended December 31, 2014

The following significant corporate events have taken place in relation to Aequus during the year ended December 31, 2014:

- 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**" as amended November 11, 2014, January 16, 2015 and February 16, 2015) 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 "**November Financing**"). 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 November Financing. In addition, Clarus and Cormark, as agents for the brokered portion of the November Financing, as well as certain registrants comprising the selling group and a finder, were granted an aggregate of 425,521 agents' special warrants (the "**Agents' Special 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 "**July Warrant**") for each Common Share subscribed for in the July 2014 Financing. The Company issued an aggregate of 207,890 July Warrants to the investors in the July 2014 Financing. Each July 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 July Warrant. The Company has a right to accelerate the exercise period of the July 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 Common Share purchase warrant (each whole Common Share purchase warrant, a "**December Warrant**"), for $0.55 per unit for aggregate gross proceeds of $332,750 (the "**December 2014 Financing**"). Each December 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 December Warrant.

- On December 18, 2014, Mr. Chris Clark was appointed to the board of directors (the "**Board**") of the Company.

Significant Events subsequent to December 31, 2014

- On January 29, 2015, Mr. Jason Flowerday was appointed to the Board.

- On February 19, 2015, Aequus obtained a receipt (the "**Receipt**") for a final prospectus filed with securities regulators in British Columbia, Alberta, Manitoba and Ontario (the "**Jurisdictions**"). The Receipt made the Company a reporting issuer in the Jurisdictions with all of the reporting requirements associated with that status. As a result of the Receipt, all 7,618,780 Special Warrants and 425,521 Agents' Special Warrants of the November Financing were deemed exercised on February 25, 2015. The Special Warrants converted into 7,618,780 Common Shares and 3,809,388 Common Share purchase warrants (the "**Underlying Warrants**", and together with the July Warrants and the December Warrants, the "**Warrants**"). The Underlying Warrants are exercisable for an equal number of Common Shares at a price of $0.75 per Underlying Warrant until November 20, 2016. The 425,521 Agents' Special Warrants converted into an equal number of Agents' Warrants. Each Agents' Warrant is exercisable into one Common Share and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, an "**Agents' Underlying Warrant**") at a price of $0.55 per Agents' Warrant until November 20, 2016.

- On March 16, 2015, Mr. Hamed Shahbazi was appointed to the Board and on March 17, 2015, the Company's Common Shares commenced trading on the TSX Venture Exchange ("**TSX-V**") under the trading symbol "AQS".

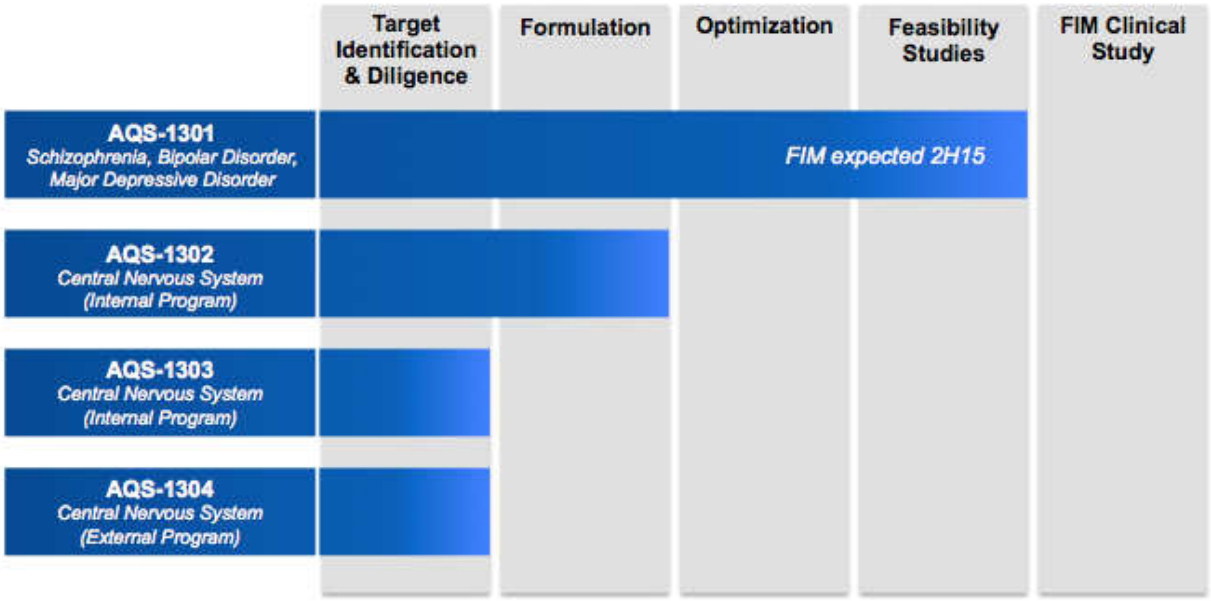
- On April 28, 2015, the Company and Corium International, Inc. announced that they have entered into a multi-product collaboration agreement under which the parties may co-fund new transdermal products with an initial focus on neurological disorders. Under the terms of this agreement, for each product selected for development, the parties will assign an allocation of responsibilities, costs, rights and product revenues.

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 five to six subjects. We anticipate initiating this study in Q3 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				2016			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AQS-1301	Formulation and optimization								
	Manufacturing								
	IND enable studies and IND								
	Phase 1a Proof of Concept								
	Phase 1b Bioequivalence								
	Phase 2 Registration preparation								
	Registration Study(1)								
AQS-1302	Formulation development								
	Formulation Optimization								
	Manufacturing								
	IND enable studies and IND								
	Phase 1a Proof of Concept								
	Phase 1b Bioequivalence								
All programs	Patent conversions & applications								

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. 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 a total cost of $35,285,000. Of this amount, $1,185,000 is expected to be incurred by the Company in fiscal year ending December 31, 2015.

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 $35,465,000. Of this amount, $480,000 is expected to be incurred by the Company in fiscal year ending December 31, 2015.

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 $4,040,475 as at December 31, 2014. 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 fiscal year ended December 31, 2014 ("**Fiscal 2014"**) and fiscal period from January 3, 2013 (date of inception) to December 31, 2013 ("**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 2014 **$**	**Fiscal 2013** **$**
Total revenue	—	—
Net loss for the fiscal period	(2,411,199)	(1,629,276)
Per share loss, basic and fully diluted	(0.09)	(0.08)
Total assets	3,665,904	337,331
Total long-term debt	—	—
Cash dividend declared per Common Share	—	—

Discussion of Operations

Aequus recorded a net loss of $2,411,199 ($0.09 per Common Share) in Fiscal 2014 and $1,629,276 ($0.08 per Common Share) in Fiscal 2013. The increase in net loss was primarily due to the Company's expanded operations in Fiscal 2014. The Company raised gross proceeds of $5,074,587 through private placement financings and warrant exercises, started negotiation with Corium for the Multi-product Collaboration Agreement, and continued its product development of AQS-1301 in Fiscal 2014.

Specifically, the increase of $781,923 between the two fiscal periods was due an increase of $23,585 in research and development expenses, an increase of $798,294 in general and administration expenses, and an increase of $39,956 in other income. The following table provides an overview of the financial results in Fiscal 2014 as compared to those in Fiscal 2013:

	Fiscal 2014 **$**	**Fiscal 2013** **$**
Research and development expenses	1,041,424	1,017,839
General and administration expenses	1,435,896	637,602
Total operating expenses and loss before other income	(2,477,320)	(1,655,441)
Other income	66,121	26,165
Net loss	**(2,411,199)**	**(1,629,276)**

Revenues

Aequus did not generate any revenue from product sales in Fiscal 2014 and Fiscal 2013. The Company does not expect any revenues from its operations 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 $1,041,424 in Fiscal 2014 as compared to $1,017,839 in Fiscal 2013. The Company had actually expanded its research and development operations and made significant technological advancement in Fiscal 2014. The increase in research and development expenses was only $23,585 mainly due to certain non-routine expenditures in the preceding year. These non-routine expenditures included (i) $400,207 of share based payments in connection to Common Shares granted to Aequus' founders at the Company's inception (the "**Founder Shares**"); and (ii) $310,790 of initial in-licensing costs associated with the rights to the transdermal formulation of aripiprazole.

Excluding the non-routine expenditures, research and development expenses increased by $734,582 in Fiscal 2014, as compared to those in Fiscal 2013. This variance was attributable to increases in subcontract research and development costs, professional and consulting fees, share-based payments, and travel and accommodation of $618,255, $144,863, $50,005 and $6,956, respectively. The incremental expenditures were associated with the advancement of AQS-1301 from a research lab at TRPL to a commercial lab at Corium. Aequus had studies conducted at both TRPL and Corium in Fiscal 2014, as compared to a single lab at TRPL in Fiscal 2013. The increased research and development expenses were offset by a decline of $85,497 in patent costs. The lower patent costs were primarily due to the slower patenting activities as the Company prepared for its PCT patent conversion process in Fiscal 2014. The following table summarizes the Company's research and development expenditures in Fiscal 2014 and Fiscal 2013:

	Fiscal 2014	**Fiscal 2013**
	$	**$**
Patent and intellectual property protection costs	30,303	115,800
Consulting fees	221,476	76,613
Licensing fees and technology transfer costs	—	310,790
Share-based payments	113,682	463,884
Subcontract research and development	649,334	31,079
Travel and accommodation	26,629	19,673
	1,041,424	1,017,839

General and Administration Expenses

General and administration expenses were $1,435,896 in Fiscal 2014 as compared to $637,602 in Fiscal 2013. The increase of $798,294 in general and administration expenses was primarily due to the engagement of management consultants, lawyers and experts to support the Company's expanded business operations, negotiation of the Multi-product Collaboration Agreement, and preparation for the listing of Aequus' Common Shares on TSX-V. These activities resulted higher consulting and management fees, legal and professional fees, and the listing expenses and regulatory fees by $145,657, $229,616, and $262,323, respectively. Share-based payments contributed to an increase of $131,280 in general and administration expenses. Excluding share-based payments of $193,793 in connection with the issuance of the Founder Shares which were non-routine, share-based payments actually climbed by $325,073 in Fiscal 2014, as compared to those in Fiscal 2013. The higher share-based payments were due to the appointments of new officers and directors. Other expense categories also contributed to an increase of $29,418 in general administration expenses. The following table summarizes Aequus' general and administration expenditures in Fiscal 2014 and Fiscal 2013:

	Fiscal 2014 $	Fiscal 2013 $
Consulting and management fees	298,657	153,000
Office and others	56,083	33,947
Legal and professional fees	327,244	97,628
Listing expenses and regulatory fees	262,323	—
Market studies and survey	17,421	—
Rent and telephone	77,522	62,718
Share-based payments	381,986	250,706
Travel and accommodation	14,660	39,603
	1,435,896	637,602

QUARTERLY FINANCIAL INFORMATION

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

	Quarter Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	("Q4 2014") $	("Q3 2014") $	("Q2 2014") $	("Q1 2014") $
Revenue	—	—	—	—
Research and development expenditures	437,985	304,803	185,878	112,758
General administration expenditures	925,418	163,009	194,164	153,305
Other income	13,677	32,023	13,992	6,429
Net loss for the period	(1,349,726)	(435,789)	(366,050)	(259,634)
Basic and diluted loss per common share	(0.05)	(0.02)	(0.02)	(0.01)

	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 payments 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 advanced its product development. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) the recognition of share-based payments of $400,207 in connection with the Founder Shares in Q1 2013, (ii) payment of licensing fees to TRPL which were primarily incurred in Q2 2013 and (iii) formulation optimization work at Corium in Q3 and Q4 2014.

- In general, general administration expenses also trended upwards as the Company added personnel and built its corporate infrastructure to support its business. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) the recognition of share-based payments of $193,793 in connection with the Founder Shares in Q1 2013, (ii) negotiation of the Multi-product Collaboration Agreement and preparation for the listing of its Common Shares on the TSX-V in Q4 2014.

- Other income was derived from foreign exchange gains in connection with (i) the receipt of research grants in Q3 and Q4 2014 and (ii) the receipt of US dollars for contract terms denominated in Canadian dollars. These positive variances were offset by foreign exchange losses from transactions requiring US dollar settlement and translation into US dollar denominated accounts due to the strengthened US dollar against the Canadian dollar since 2013.

Fourth Quarter

Aequus recorded a net loss of $1,349,726 ($0.05 per Common Share) in Q4 2014 as compared to $341,259 ($0.01 per Common Share) in Q4 2013. The increase of $1,008,467 in net loss was attributable to an increase in the Company's operating expenditures by $1,012,207, which was partly offset by an increase of $3,740 in other income. Of the increase in operating expenditures, $257,687 was in research and development expenditures and $754,520 was in general administration expenditures.

Research and development expenditures increased to $437,985 in Q4 2014 from $180,298 in Q4 2013 primarily due to the advancement of AQS-1301 to a commercial lab at Corium. The following table provides a detailed breakdown of Aequus's research and development expenditures in Q4 2014, as compared to those in Q4 2013:

	Q4 2014 $	Q4 2013 $
Patent and intellectual property protection costs	6,847	34,030
Consulting fees	86,923	26,703
Licensing fees and technology transfer costs	—	29,382
Share-based payments	68,560	57,018
Subcontract research and development	258,726	31,079
Travel and accommodation	16,929	2,086
	437,985	180,298

General administration expenditures increased to $925,418 in Q4 2014 from $170,898 in Q4 2013 due to the Company's expanded operations. Key activities in Q4 2014 included negotiation of the Multi-product Collaboration Agreement, financing and preparation for the listing of Aequus' Common Shares on the TSX-V. The following table provides a detailed breakdown of Aequus's research and development expenditures in Q4 2014, as compared to those in Q4 2013:

	Q4 2014 $	Q4 2013 $
Consulting and management fees	117,826	55,125
Office and others	32,340	7,692
Legal and professional fees	161,880	39,184
Listing expenses and regulatory fees	262,323	—
Rent and telephone	16,294	18,691
Share-based payments	329,696	36,934
Travel and accommodation	5,059	13,272
	$925,418	$170,898

LIQUIDITY AND CAPITAL RESOURCES

The Company's operational activities during Fiscal 2014 were financed mainly by equity financings. At December 31, 2014, Aequus had cash and cash equivalents of $3,576,071 and working capital of $2,916,154. Management believes that the Company's cash position will be sufficient to finance Aequus' operational and capital needs for at least twelve 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 2014 $	Fiscal 2013 $
Cash used in operating activities	(1,364,877)	(876,058)
Cash used in investing activities	—	(7,491)
Cash provided by financing activities	4,629,216	1,195,281
Net increase in cash and cash equivalents	3,194,339	311,732

Cash used in operating activities was comprised of net loss, add-backs of non-cash expenses, and net change in non-cash working capital items. Comparing the sources and uses in the two fiscal periods, the increase of $488,819 in cash used in operating activities in Fiscal 2014 was primarily due to the higher net loss by $781,923 and the reduced add-backs of non-cash expenses by $218,172. These negative variances were offset by a positive net change of $511,276 in non-cash working capital, which was primarily attributable to the deferred payments of accounts payable. 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 climbed by $3,433,935 in Fiscal 2014 as compared to the amount in Fiscal 2013. Aequus received $5,074,587 of cash from private placement financings and exercises of warrants, and paid $518,254 of financing costs, excluding share-based payments of $112,963 to financing agents in Fiscal 2014. This is compared to cash from private placement financings that grossed $1,211,770 and cost $16,489 in Fiscal 2013. The higher gross financing proceeds in Fiscal 2014 was partly due to the Company's plan to list its Common Shares on the TSX-V and the involvement of financing agents to support Aequus' financing efforts. As a result, the share issuance costs were also higher in Fiscal 2014, as compared to those in Fiscal 2013.

OUTSTANDING SHARE CAPITAL

As of April 30, 2015, there were no Class A Preferred shares without par value in the capital of the Company ("**Class A Preferred Shares**") issued and outstanding, 33,594,127 Common Shares issued and outstanding and other securities convertible into Common Shares as summarized in the following table:

	Number outstanding as of April 30, 2015
Common Shares issued and outstanding	33,594,127
Class A Preferred Shares	Nil
Options[(1)]	3,347,337
Warrants[(2)]	4,319,780
Agents' Warrants[(3)]	425,521

Notes:

(1) Of the 3,347,337 options outstanding, 2,064,253 are vested and exercisable at a weighted average price of $0.39 per Common Shares. The remaining 1,283,084 options are not vested and at a weighted average price of $0.39 per Common Share.

(2) All outstanding Warrants are exercisable into an equal number of Common Shares at a price of $0.75 per Warrant.

(3) Each Agents' Warrant entitles the holder to acquire one Common Share and one-half of one Agents' Underlying Warrant, subject to certain conditions. Each Agents' Underlying Warrant is exercisable into one Common Shares at a price of $0.75 per Agents' Underlying Warrant.

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 parties include members of the Board and officers of the Company, and enterprises controlled by these individuals. The following fees and expenses were incurred in the normal course of business:

	Year Ended December 31, 2014 $	Period Ended December 31, 2013 $
Sub-contract research and licensing fees	348,561	341,869
Management fees	238,000	88,500
Consulting fees	92,500	64,000
	679,061	**494,369**

(i) On July 30, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), entered into the License Agreement. TRPL is controlled by Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis, the current directors of the Company. Pursuant to the Licensing Agreement, and subsequent amendments dated June 1, 2014 and March 11, 2015, the Company obtains an exclusive worldwide right to a novel transdermal formulation of aripiprazole for all uses. The Company paid TRPL $310,790 of licensing fees and other associated costs in the fiscal period ended December 31, 2013. The Company has fulfilled all of its obligations under the Licensing Agreement.

On August 1, 2013, the Company and TRPL further entered into the Research Services Contract to cover formulation work in connection with the aripiprazole formulation and other pipeline programs as directed by the Company. Pursuant to the terms of the Research Services Contract the Company compensates TRPL for research work requested and pre-approved by the Company in exchange for the right to acquire an exclusive worldwide right to any intellectual property arising from or related to the research work. There is no fixed financial commitment under the Research Services Contract. The Company incurred subcontract research fees of $348,561 and $31,079 during fiscal periods ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Company included in its accounts payable and accrued liabilities $57,363 (2013 – Nil) due to TRPL.

(ii) Effective September 1, 2014, the Company entered into a management services agreement with Northview Ventures and Associates General Partners ("**Northview**"), Doug Janzen, and Anne Stevens (the "**Management Services Agreement**"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Ms. Stevens is Corporate Secretary and Vice President, Corporate Development . Pursuant to the Management Service Agreement, Mr. Janzen, Miss. Stevens and other employees of Northview, direct and manage the affairs and the day-to-day operations of the Company at a monthly rate of $27,000. Northview is entitled to incentive bonuses upon the satisfaction of specified milestones.

As of December 31, 2014, the Company included in its accounts payable and accrued liabilities $28,350 (2013 – Nil) due to Northview.

(iii) Prior to September 1, 2014, the Company had a consultancy arrangement with Mr. Janzen for his management services at a monthly rate of $10,000. This arrangement was replaced by the Management Service Agreement on September 1, 2014.

(iv) The Company entered into a financial consulting service agreement with two former directors, Peter Wilson and K. Charlie Perperidis, respectively at a monthly rate of $4,000 each. Mr. Wilson and Mr. Perperidis ceased to be directors of the Company in October 2014.

(v) On December 1, 2014, the Company entered into a consulting services agreement with KeenVision Consulting Inc. ("**KeenVision**") and Christina Yip (the "**Consulting Agreement**"). Ms. Yip is the Acting Chief Financial Officer of the Company. Pursuant to the Consulting Agreement with a term expiring on November 30, 2016, Ms. Yip and other personnel of KeenVision provide financial services normally assumed by the Chief Financial Officer and Controller of a publicly listed company. KeenVision is compensated at a monthly rate of $8,000 and is entitled to incentive bonuses upon the satisfaction of specified milestones.

As of December 31, 2014, the Company has included in its accounts payable and accrued liabilities $8,400 (2013 – Nil) due to KeenVision.

(vi) As of December 31, 2014, the Company has included in its accounts payable and accrued liabilities $33,778 (2013 – Nil) due to officers of the Company.

[b] Key management compensation

Key management includes members of the Board and executive officers of the Company. Compensation awarded to key management is listed below:

	Year Ended December 31, 2014 $	Period Ended December 31, 2013 $
Management fees	238,000	88,500
Consulting fees	92,500	64,000
Share-based payments	425,434	36,934
	755,934	**189,434**

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

New Standards Recently Adopted

The following is an overview of new accounting standards that the Company adopted effective January 1, 2014:

- **IAS 32** - *Financial Instruments, Presentation.* IAS 32 clarifies the criteria that should be considered in determining whether an entity has a legally enforceable right of set off its financial instruments.

- **IAS 36** - *Impairment of Assets*. The amendment for IAS 36 reduces the circumstances in which the recoverable amount of cash-generating units is required to be disclosed and clarifies the disclosures when an impairment loss has been recognized or reversed in the period.

- **IFRIC 21 –** *Levies* – International Financial Reporting Standards Interpretations Committee ("**IFRIC**") 21 provides guidance on when to recognize a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The adoption of the above standards did not have a material impact on the financial statements.

New Standards Not Yet Effective

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 2** – *Share-based Payment (Amendment)* - This new standard provides revised definition for "vesting conditions" and "market condition" related to share based payment. The standard is effective for annual periods beginning on or after July 1, 2014.

- **IFRS 9** - *Financial Instruments* - This standard provides added guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018.

- **IFRS 15** - *Revenue from Contacts with Customers* – The standard covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning or after January 1, 2017.

- **IAS 24 –** *Related Party Disclosures (Amendment)* - This new standard provides new definition for "related party" which encompasses key management personnel. The standard is effective for annual periods beginning on or after July 1, 2014.

- **IAS 38 –** *Intangible Assets (Amendment)* – This new standard provides guidance on revaluation methods for intangible assets. The standard is effective for annual periods beginning on or after January 1, 2016.

The Company is currently assessing the impact of adoption of these new standards

FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments at December 31, 2014 and 2013 consist of the following:

	December 31, 2014 $	December 31, 2013 $
Financial assets		
Cash	3,576,071	311,732
Amounts receivable	75,340	8,596
Financial Liabilities		
Accounts payable and accrued liabilities	744,507	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 13 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.

[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 and amounts receivable. The Company has adopted practices 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 practices limit the investing of excess funds to liquid term deposits with banks and government guaranteed securities with maturities of one year or less. The Company had no short-term investments at December 31, 2014. Amounts receivable consist of primarily goods and services tax due from the 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, 2014, the Company had working capital of $2,916,154 (December 31, 2013 - $273,853).

[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. During the period ended December 31, 2014, 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, 2014 and 2013, the Company had the following assets and liabilities denominated in US dollars:

	December 31, 2014 US$	**December 31, 2013 US$**
Cash	195,585	165,920
Accounts payable and accrued liabilities	(202,342)	(8,492)
Total	**(6,757)**	**157,428**

Based on the above net exposure as at December 31, 2014, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the US dollar would result in a change of $338 (2013 - $8,372) in the Company's net loss and comprehensive loss.

ADDITIONAL INFORMATION

Additional information about the Company, including the Annual Financial Statements, is available on SEDAR at www.sedar.com