Aequus Pharmaceuticals Inc.

Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(Unaudited – expressed in Canadian dollars)

Aequus Pharmaceuticals Inc.
Condensed Interim Statements of Financial Position
(Unaudited - Expressed in Canadian dollars)

	Note	March 31, 2015 $	December 31, 2014 $
ASSETS			
Current			
Cash and cash equivalents		2,269,779	3,576,071
Amounts receivable		119,397	75,340
Prepaid expenses and other		47,033	9,250
		2,436,209	**3,660,661**
Property and equipment		4,869	5,243
Total assets		**2,441,078**	**3,665,904**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	372,801	744,507
Total liabilities		**372,801**	**744,507**
Shareholders' equity			
Share capital			
Issued and outstanding:			
Common shares	5 [a]	5,628,651	2,029,127
Special warrants	5 [a]	—	3,599,524
Contributed surplus		1,606,329	1,333,221
Deficit		(5,166,703)	(4,040,475)
Total shareholders' equity		**2,068,277**	**2,921,397**
Total liabilities and shareholders' equity		**2,441,078**	**3,665,904**

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

Commitments and Contingencies [Note 7]
Subsequent Events [Note 10]

These financial statements were approved for issue by the Board of Directors on May 29, 2015 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Fotios Plakogiannis
Director

Aequus Pharmaceuticals Inc.
Condensed Interim Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2015 $	Three Months Ended March 31, 2014 $
Expenses			
Research and development			
Patent and intellectual property protection		22,077	8,957
Consulting and management fees	6	90,784	33,125
Share-based payments	5[d] and 6	12,295	15,040
Subcontract costs		245,758	55,310
Travel and accommodation		8,672	326
		379,586	112,758
General administration			
Advertising and promotion		17,774	4,348
Consulting and management fees	6	172,100	67,143
Depreciation		374	375
Legal and professional fees		140,994	25,757
Office and other		8,745	10,630
Regulatory, transfer agent and listing fees		79,368	—
Rent and telephone		19,590	22,896
Salaries and benefits		11,536	—
Share-based payments	5[d] and 6	260,813	18,091
Travel and accommodation		22,837	4,065
		734,131	153,305
Loss before other income		**(1,113,717)**	**(266,063)**
Other income (loss)			
Interest income		3,699	—
Foreign exchange loss		(16,210)	6,429
		(12,511)	**6,429**
Net loss and comprehensive loss		**(1,126,228)**	**(259,634)**
Basic and diluted loss per common share		**(0.04)**	**(0.01)**
Weighted average number of common shares outstanding		**28,938,206**	**24,860,244**

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

Aequus Pharmaceuticals Inc.
Condensed Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares		Special Warrants		Contributed Surplus	Deficit	Total
	Number	$	Number	$	$	$	$
Balance, December 31, 2013	**24,367,606**	**1,195,281**	**—**	**—**	**714,590**	**(1,629,276)**	**280,595**
Issued for cash pursuant to exercise of warrants	10,000	5,500	—	—	—	—	5,500
Share-based payments	—	—	—	—	33,131	—	33,131
Net loss for the year	—	—	—	—	—	(259,634)	(259,634)
Balance, March 31, 2014	**24,377,606**	**1,200,781**	**—**	**—**	**747,721**	**(1,888,910)**	**59,592**
Issued for cash pursuant to private placements	1,020,780	511,018	8,044,301	3,599,524	122,963	—	4,233,505
Issued for cash pursuant to exercise of warrants	576,961	317,328	—	—	—	—	317,328
Share-based payments	—	—	—	—	462,537	—	462,537
Net loss for the year	—	—	—	—	—	(2,151,565)	(2,151,565)
Balance, December 31, 2014	**25,975,347**	**2,029,127**	**8,044,301**	**3,599,524**	**1,333,221**	**(4,040,475)**	**2,921,397**
Deemed exercise of special warrants	7,618,780	3,599,524	(8,044,301)	(3,599,524)	—	—	—
Share-based payments	—	—	—	—	273,108	—	273,108
Net loss for the year	—	—	—	—	—	(1,126,228)	(1,126,228)
Balance, March 31, 2015	**33,594,127**	**5,628,651**	**—**	**—**	**1,606,329**	**(5,166,703)**	**2,068,227**

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

Aequus Pharmaceuticals Inc.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2015 $	Three Months Ended March 31, 2014 $
OPERATING ACTIVITIES			
Net loss for the period		(1,126,228)	(259,634)
Add items not affecting cash:			
Depreciation of property and equipment		374	375
Share-based payments	5[d]	273,108	33,131
		(852,746)	(226,128)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		(44,057)	(2,953)
Prepaid expenses and other		(37,783)	3,096
Accounts payable and accrued liabilities		(371,706)	18,373
Cash used in operating activities		**(1,306,292)**	**(207,612)**
FINANCING ACTIVITIES			
Issuance of common shares, net of issuance costs		—	5,500
Cash provided by financing activities		—	**5,500**
Decrease in cash and cash equivalents		**(1,306,292)**	**(202,112)**
Cash and cash equivalents, beginning of the period		3,576,071	311,732
Cash and cash equivalents, end of the period		**2,269,779**	**109,620**
Cash and cash equivalent consists of:			
Cash		753,101	97,996
Demand deposits		1,516,678	11,624
		2,269,779	109,620

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Business Description

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

The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

Going Concern and Uncertainty

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

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2015, the Company has accumulated a deficit of $5,166,703 (December 31, 2014 - $4,040,475). The Company's ability to continue as a going concern depends on its ability to obtain additional financing and, in the long-term, successfully develop its products for partnering revenue or commercialization profits. The Company has funded its operations primarily by common shares and warrants issuances. While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future. The Company believes its current working capital as of March 31, 2015 is adequate to finance its operation in the next twelve months.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2014, which have been prepared with International Financial Reporting Standards ("IFRS").

These Financial Statements were approved by the Company's Board of Directors on May 29, 2015.

2. BASIS OF PRESENTATION (CONTINUED)

[b] Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

[c] Functional and foreign currency

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

[d] Significant accounting estimates and judgments

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

The Company reviews its estimates and underlying assumptions on an ongoing basis.

Critical Judgments

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

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

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

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

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2014. There were no changes in accounting policies during the three months ended March 31, 2015.

4. RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Recently Adopted

The Company has not adopted any new standards during the three months ended March 31, 2015.

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.

5. SHARE CAPITAL

[a] Common shares

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares without par value		
Unlimited number of Class A preferred shares without par value		
Issued and Outstanding		
Balance, December 31, 2013	**24,367,606**	**1,195,281**
Issued for cash pursuant to exercise of warrants *[note 5 [a] (i)]*	10,000	5,500
Balance, March 31, 2014	**24,377,606**	**1,200,781**
Issued for cash pursuant to exercise of warrants *[note 5 [a] (i)]*	576,961	317,328
Issued for cash pursuant to a private placement *[note 5 [a] (ii)]*	415,780	192,270
Issued for cash pursuant to a private placement *[note 5 [a] (iii)]*	605,000	318,748
Balance, December 31, 2014	**25,975,347**	**2,029,127**
Issued for cash pursuant to a private placement *[note 5 [a] (iv)]*	7,618,780	3,599,524
Balance, March 31, 2015	**33,594,127**	**5,628,651**

(i) On March 6, 2014, the Company provided notices to its common share warrant holders that it would enter into a development and manufacturing agreement. As a result, the expiry date of the common share purchase warrants was accelerated to July 4, 2014 pursuant to the terms of the private placements closed in June and September 2013. Concurrently, warrant holders were given offers until April 11, 2014 for early exercise. The offered terms were a lower exercise price of $0.55 instead of $0.65 per common share, and the right to transfer the warrant in exchange for an earlier expiry date of May 5, 2014 (the "**Offer**").

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

Of the 586,961 warrants exercised into common shares, 10,000 warrants were exercised in the three months ended March 31, 2014 and the remaining 576,961 were exercised during the period from April 1, 2014 to July 4, 2014.

(ii) On July 11, 2014, the Company closed a private placement of common shares. The Company issued 415,780 common shares at a price of $0.55 per common share for total gross proceeds of $228,680. The Company incurred $35,410 in other share issuance costs. The Company subsequently entered into amending agreements with the investors of this financing and issued 207,890 common share purchase warrants to the investors. Each such warrant is exercisable to acquire one common share in the capital of the Company at an exercise price of $0.75 per warrant for a period of 24 months following the date of issuance of such warrant, subject to adjustment in certain circumstances and the Company's right to accelerate the exercise period of such warrants upon meeting certain conditions.

5. SHARE CAPITAL (CONTINUED)

(iii) On December 17, 2014, the Company issued an aggregate of 605,000 units at a price of $0.55 per unit for aggregate gross proceeds of $332,750. Each unit consists of one common share and one half of one common share purchase warrant of the Company. Each whole common share purchase warrant warrant is exercisable into one common share of the Company at $0.75 per such warrant until December 17, 2016. The Company has a right to accelerate the exercise period of the warrants upon meeting certain conditions.

This is a follow-on financing to the Offering defined herein. As such, the Company has allocated a pro-rata share of the professional fees and other related financing costs in connection to the Offering to this financing. The Company incurred $14,002 in issuance costs which are comprised of $1,485 cash commissions and $12,517 of professional fees and other related financing costs.

(iv) On November 20, 2014, the Company closed a brokered private placement offering and a non-brokered private placement offering of special warrants (collectively the "**Offering**"). Cormark Securities Inc. and Clarus Securities Inc. acted as co-lead agents in the brokered private placement offering for a syndicate of agents that also included Wolverton Securities Ltd. and PI Financial Corp. (collectively the "**Agents**").

In connection with the Offering, the Company issued a total of 7,618,780 special warrants at a price of $0.55 per special warrant for total gross proceeds of $4,190,329 and agreed to file a final long form prospectus with securities regulators in British Columbia, Alberta, Manitoba and Ontario. The Company obtained a receipt (the "**Receipt**") for its final long form prospectus on February 19, 2015 and listed its common shares on the TSX Venture Exchange on March 17, 2015. As a result of the Receipt, all 7,618,780 special warrants were deemed exercised on February 25, 2015. These securities converted into 7,618,780 common shares and 3,809,388 common share purchase warrants (the "**Warrants**"). Each Warrant is exercisable into one common share in the capital of the Company at a price of $0.75 per Warrant until November 20, 2016. The Company has a right to accelerate the exercise period of such warrants upon meeting certain conditions.

In connection to the Offering, the Company incurred $248,270 cash commissions and issued 425,521 agents' special warrants valued at $122,963. These agents' special warrants were deemed exercised into 425,521 agents' warrants (the "**Agents' Warrants**") at no additional consideration on February 25, 2015. Each Agents' Warrant entitles the holder to acquire one unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant at an exercise price of $0.55 per Agents' Warrant until November 20, 2016. Each whole warrant entitles the holder to acquire an additional common share at a purchase price of $0.75 per warrant for a period of 24 months following the date of the Agents' warrant. The Company has a right to accelerate the exercise period of such warrants upon meeting certain conditions. The Company has allocated $219,572 of professional fees and other related financing costs to this Offering and recorded a total issuance cost of $590,805 including cash commissions.

5. SHARE CAPITAL (CONTINUED)

[c] Common share purchase warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2013	**2,680,856**	**0.65**
Exercised	(10,000)	0.65
Balance, March 31, 2014	2,670,856	0.65
Exercised	(576,961)	0.65
Expired	(2,093,895)	0.65
Issued	510,390	0.75
Balance, December 31, 2014	**510,390**	**0.75**
Issued	3,809,388	0.75
Balance, March 31, 2015	**4,319,778**	**0.75**

Date of Expiry	Number	Exercise Price $
December 17, 2016	487,663	0.75
December 23, 2016	22,727	0.75
November 20, 2016	3,809,388	0.75
	4,319,778	**0.75**

[c] Agents' warrants

In connection with the Offering, the Company issued 425,521 Agents' Warrants and the number of Agents' Warrants outstanding is summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31 and March 31, 2013, and December 31, 2014	—	—
Issued	425,521	0.55
Balance, March 31, 2015	**425,521**	**0.55**

Each Agents' Warrant entitles the holder to acquire one unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant at an exercise price of $0.55 per Agents' Warrant until November 20, 2016. Each whole warrant entitles the holder to acquire an additional common share at a purchase price of $0.75 per warrant for a period of 24 months following the date of the Agents' warrant.

5. SHARE CAPITAL (CONTINUED)

[d] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan", as amended February 4, 2015) providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The maximum number of common shares that are issuable under the Stock Option Plan is an aggregate of 10% of the issued and outstanding common shares, calculated as at the award date of the options. The maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the three months ended March 31, 2015 and 2014, the Company recorded share-based payments of $273,108 and $33,131, respectively. The fair values of share options granted during the three months ended March 31, 2015 and 2014 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2015	2014
Risk-free interest rate	1.02%	-
Estimated annualized volatility based on comparable companies	100%	-
Expected life	8.00 years	-
Expected dividend yield	0%	-
Exercise price	$0.55	-
Fair value	$0.47	-
Share price	$0.55	-

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2013 and March 31, 2014	**1,369,735**	**0.27**
Amendment [(i)]	674,602	0.35
Granted	553,000	0.55
Balance, December 31, 2014	**2,597,337**	**0.35**
Granted	750,000	0.55
Balance, March 31, 2015	**3,347,337**	**0.39**

(i) In November 2014, the Company amended certain terms of the stock options previously granted in May 2013. The amendments include changing the right to acquire additional common shares, from 449,735 to 1,124,337 common shares, and increasing the exercisable price from $0.10 to $0.25 per common shares. All other terms remained unchanged.

5. SHARE CAPITAL (CONTINUED)

[d] Stock options (continued)

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
May 31, 2020	$0.25	1,124,337	843,253
December 12, 2021	$0.35	920,000	522,500
December 1, 2022	$0.55	203,000	89,000
December 18, 2022	$0.55	350,000	175,000
March 6, 2023	$0.55	750,000	375,000
Balance, March 31, 2015	**$0.39**	**3,347,337**	**2,004,753**

As of March 31, 2015, the weighted average remaining life for outstanding options was 6.7 years (December 31, 2014 – 6.5 years).

6. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

	Three Months Ended March 31, 2015 $	Three Months Ended March 31, 2014 $
Management fees[(i)(ii)]	141,000	40,000
Consulting fees[(iii)]	85,734	24,000
Sub-contract research and licensing fees[(iv)]	73,454	55,310
	300,188	**119,310**

(i) 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 "Services Agreement"). Mr. Janzen is Chairman, President, and Chief Executive Officer and Miss. Stevens is Secretary and Vice President, Corporate Development. Pursuant to the 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. Management fee is allocated to research and development and general and administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. During the three months ended March 31, 2015, Northview received a payment of $60,000 for listing on the TSX Venture exchange.

As of March 31, 2015, the Company included in its accounts payable and accrued liabilities $28,350 (December 31, 2014 – $28,350) due to Northview.

6. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

(ii) In the preceding year, 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 Service Agreement on September 1, 2014.

(iii) Consulting fees include fees paid to other officers and directors detailed as follows:

(a) 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. During the three months ended March 31, 2015, KeenVision received a payment of $12,500 for listing on the TSX Venture exchange.

As of March 31, 2015, the Company has included in its accounts payable and accrued liabilities $21,525 (December 31, 2014 – $8,400) due to KeenVision.

(b) The Company entered into a consulting service agreement with Dr. Don McAfee who serves as the Acting Chief Scientific Officer of the Company. Pursuant to the Consulting Agreement with a term expiring on April 22, 2015, Dr. McAfee is compensated at a daily rate of US$1,000. During the three months ended March 31, 2015, Dr. McAfee charged a total consulting fees of $49,234.

As of December 31, 2014, the Company has included in its accounts payable and accrued liabilities $18,993 (December 31, 2014 – $33,778) due to Dr. McAfee of the Company.

(c) In the preceding year, the Company paid consulting fees to Peter Wilson and K. Charlie Perperidis, at a monthly rate of $4,000 each pursuant to its consulting agreements with them. Mr. Wilson and Mr. Perperidis ceased to be directors of the Company in October 2014.

6. RELATED PARTY DISCLOSURE (CONTINUED)

[a] Transactions with related parties (continued)

(iv) On July 30, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), entered into a licensing 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 and fulfilled all of its obligations under the licensing agreement in 2013.

On August 1, 2013, the Company and TRPL further entered into a research service 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 this research service contract expiring on June 30, 2015, 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 this research service contract.

The Company incurred subcontract research and licensing fees of $73,454 and $55,310 during three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2014 – $57,363) due to TRPL.

[b] Key management compensation

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

	Three Months Ended March 31, 2015 $	Three Months Ended March 31, 2014 $
Management fees	141,000	40,000
Consulting fees	85,734	24,000
Share-based payments	264,791	15,479
	491,525	**79,479**

7. COMMITMENTS AND CONTINGENCIES

[a] Operating Lease

On January 1, 2014, the Company entered into an office sharing agreement for its Vancouver head office at Dunsmuir Street. This office sharing agreement has a term until March 31, 2018. Pursuant to this agreement, the Company is obligated to pay a minimum monthly rent of $9,048 and has a right to terminate the office arrangement with a 90-day written notice after January 1, 2015.

[b] Development Agreement

On May 23, 2014, the Company entered into a development agreement with Corium International Inc. ("Corium") which requires the Company to fund research and development work. Pursuant to this development agreement, the Company has a minimum financial commitment of $289,815 (US$261,000) and an option to contract additional research studies at $464,040 (US$400,000). The Company had fulfilled its minimum financial commitment of $289,815 (US$261,000) in the preceding year ended December 31, 2014.

[c] Contingencies

The Company has entered into agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay.

As of March 31, 2015, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the financial statements with respect to these indemnification obligations.

8. CAPITAL DISCLOSURES

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

The Company defines its capital as share capital, special warrants, and contributed surplus. The Company has financed its capital requirements primarily through share and warrant issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the three months ended March 31, 2015.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

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

IFRS 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 March 31, 2015. 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 March 31, 2015, the Company had working capital of $2,063,408 (December 31, 2014 - $2,916,154).

[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

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk (continued)

[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 March 31, 2015 and December 31, 2014, the Company had the following assets and liabilities denominated in US dollars:

	March 31, 2015 US$	December 31, 2014 US$
Cheques issued in excess of deposits	(6,717)	195,585
Accounts payable and accrued liabilities	(79,878)	(202,342)
Total	**(86,595)**	**(6,757)**

Based on the above net exposure as at March 31, 2015, 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 $4,330 in the Company's net loss and comprehensive loss.

10. SUBSEQUENT EVENTS

a) On April 9, 2015, the Company entered into a sublease agreement for its new Vancouver head office premise expiring on November 30, 2018 and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay minimum monthly lease payment of $8,893 starting June 1, 2015. The Company has exercised its right and provided written notice on February 10, 2015 to terminate the office sharing agreement for its office premises at Dunsmuir [Note 8[a]].

b) On April 28, 2015, the Company and Corium 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.