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

As of May 29, 2015

For the three months ended March 31, 2015

*This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the three months ended March 31, 2015 and is performed by management using information available as of May 29, 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 unaudited condensed interim financial statements and notes thereto for the three months ended March 31, 2015 (the "**Interim Financial Statements**"), as well as audited financial statements for the year ended December 31, 2014 and the related notes thereto ("**Annual Financial Statements**"). The Company's Interim Financial Statements and 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 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;*
- *our use of proceeds from any financings;*
- *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 was incorporated under the name "Aequus Pharmaceuticals Inc." pursuant to the *Business Corporations Act* (British Columbia) on January 3, 2013. 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.

Significant Events in Company History

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 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. On April 28, 2015, the Company and Corium entered into the Collaboration Agreement (see "*Significant events subsequent to March 31, 2015*", below). 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 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**", as amended June 1, 2014 and March 11, 2015).

Significant events during the three months ended March 31, 2015

- On January 29, 2015, Mr. Jason Flowerday was appointed to the Board of Directors of the Company (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 of the Company (the "**Special Warrants**") and 425,521 agents' special warrants of the Company (the "**Agents' Special Warrants**") issued pursuant to the Company's November 20, 2014 offering of Special Warrants (the "**Offering**") were deemed exercised on February 25, 2015. The Special Warrants converted into 7,618,780 common shares in the capital of the Company (each, a "**Common Share**") and 3,809,388 Common Share purchase warrants

(the "**Underlying 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 (the "**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.

- On March 17, 2015, the Company's Common Shares commenced trading on the TSX Venture Exchange ("**TSX-V**") under the trading symbol "AQS" (the "**TSX-V Listing**").

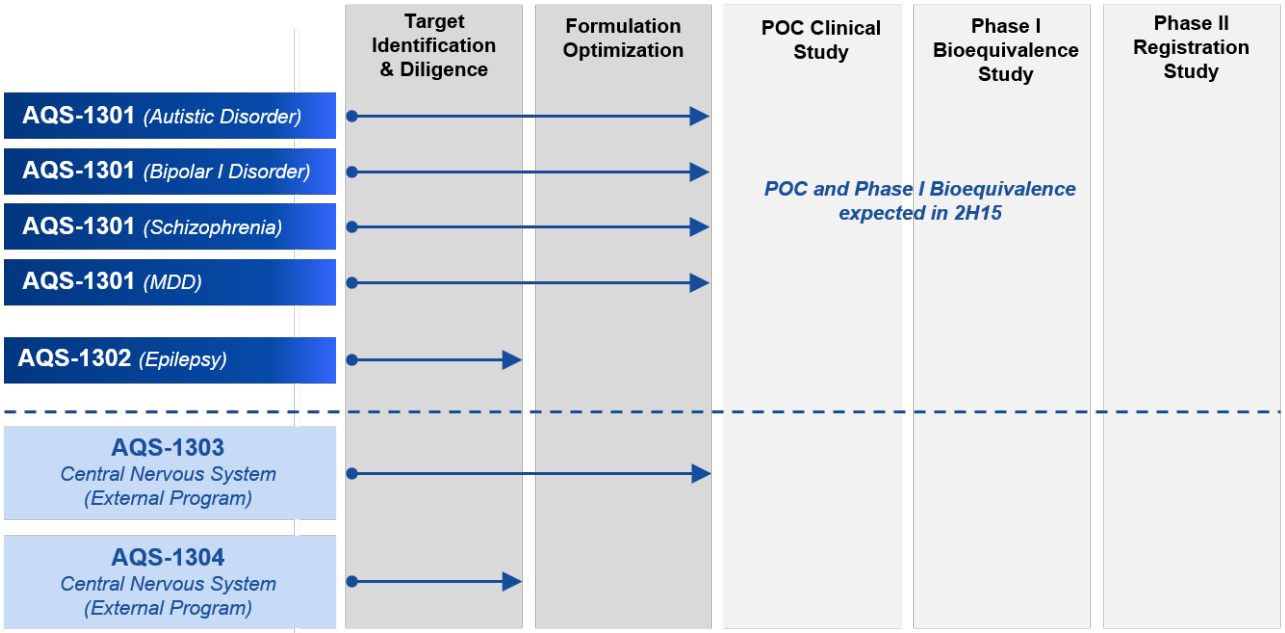
Significant Events subsequent to March 31, 2015

- On April 28, 2015, the Company and Corium entered into the 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 the Multi-product Collaboration Agreement, for each product selected for development, the parties will assign an allocation of responsibilities, costs, rights and product revenues.

Aequus' Products and Development

Aequus' lead product candidate, AQS-1301, is expected to be a once-weekly transdermal formulation of aripiprazole that is currently in pre-clinical development. The oral, once-daily formulation of aripiprazole is currently marketed under the trade name Abilify for the treatment of bipolar I disorder, schizophrenia, irritability associated with autistic disorder, and major depressive disorder. Abilify, a unique atypical antipsychotic, is a market leader in the U.S., and Aequus believes it has limitations due to its daily dosing regimen which is associated with a high rate of non-compliance and relapse. Aequus' proposed transdermal, once-weekly aripiprazole patch 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 U.S. Food and Drug Administration ("**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). Under the terms of the Collaboration Agreement, Corium has an option to co-fund 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 1a) 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 1b 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 1b 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 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 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 $5,166,703 as at March 31, 2015. 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.

Discussion of Operations

Aequus recorded a net loss of $1,126,228 ($0.04 per Common Share) in the three months ended March 31, 2015 ("**Q1 2015**") and $259,634 ($0.01 per Common Share) in the three months ended March 31, 2014 ("**Q1 2014**"). The increase in net loss was primarily due to the Company's expanded operations in Q1 2015. The Company accomplished a number of corporate milestones in Q1 2015 including the Receipt of its final long form prospectus on February 19, 2015 and the TSX-V Listing on March 17, 2015. The Company continued its negotiation with Corium for the Multi-product Collaboration Agreement, and further advanced its development of AQS-1301 into late stage formulation optimization and prototype development in Q1 2015.

Specifically, the increase of $866,594 between the two reporting periods was due to an increase of $266,828 in research and development expenses, an increase of $580,826 in general and administration expenses, and an increase of $18,940 in other loss. The following table provides an overview of the financial results in Q1 2015 as compared to those in Q1 2014:

	Q1 2015 $	Q1 2014 $
Research and development expenses	379,586	112,758
General and administration expenses	734,131	153,305
Total operating expenses and loss before other income	(1,113,717)	(266,063)
Other income (loss)	(12,511)	6,429
Net loss	**(1,126,228)**	**(259,634)**

Revenues

Aequus did not generate any revenue from product sales in Q1 2015 or Q1 2014. 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

Research and development expenses were $379,586 in Q1 2015, as compared to $112,758 in Q1 2014. The variance of $266,828 was attributable to increases in subcontract research and development costs and professional and consulting fees by $190,448 and $57,659, respectively. These incremental expenditures were associated with the formulation optimization and prototype development of AQS-1301, as well as formulation assessment of AQS-1302. Development work was carried out by both TRPL and Corium in Q1 2015, as compared to being carried out by a single lab, TRPL, in Q1 2014. The Company started its Patent Cooperation Treaty patent conversion process in Q1 2015; as a result, patent costs increased by $13,120. Other expense categories also contributed to an increase of $5,601 in research and development expenses. The following table summarizes the Company's research and development expenditures in Q1 2015 and Q1 2014:

	Q1 2015 $	Q1 2014 $
Patent and intellectual property protection costs	22,077	8,957
Professional and consulting fees	90,784	33,125
Share-based payments	12,295	15,040
Subcontract research and development	245,758	55,310
Travel and accommodation	8,672	326
	379,586	**112,758**

General and Administration Expenses

General and administration expenses were $734,131 in Q1 2015 as compared to $153,305 in Q1 2014. The increase of $580,826 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 the TSX-V Listing. These activities resulted higher consulting and management fees, legal and professional fees, and listing expenses and regulatory fees by $104,957, $115,237, and $79,368, respectively. Share-based payments also contributed to an increase of $242,722 in general and administration expenses. The higher share-based payments were due to the appointments of new officers and directors. Other expense categories also contributed to an increase of $38,542

in general administration expenses. The following table summarizes Aequus' general and administration expenditures in Q1 2015 and Q1 2014:

	Q1 2015 $	Q1 2014 $
Consulting and management fees	172,100	67,143
Office and others	26,893	15,353
Legal and professional fees	140,994	25,757
Listing expenses and regulatory fees	79,368	—
Rent and telephone	19,590	22,896
Salaries and benefits	11,536	—
Share-based payments	260,813	18,091
Travel and accommodation	22,837	4,065
	734,131	**153,305**

QUARTERLY FINANCIAL INFORMATION

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

	Quarter Ended			
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
	("Q1 2015") $	("Q4 2014") $	("Q3 2014") $	("Q2 2014") $
Revenue	—	—	—	—
Research and development expenditures	379,586	437,985	304,803	185,878
General administration expenditures	734,131	925,418	163,009	194,164
Other income (loss)	(12,511)	13,677	32,023	13,992
Net loss for the period	(1,126,228)	(1,349,726)	(435,789)	(366,050)
Basic and diluted loss per common share	(0.04)	(0.05)	(0.02)	(0.02)

	Quarter Ended			
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
	("Q1 2014") $	("Q4 2013") $	("Q3 2013") $	("Q2 2013") $
Revenue	—	—	—	—
Research and development expenditures	112,758	180,298	141,015	282,614
General administration expenditures	153,305	170,898	106,990	118,674
Other income	6,429	9,937	10,780	5,448
Net loss for the period	(259,634)	(341,259)	(237,225)	(395,840)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.01)	(0.02)

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

- In general, research and development expenditures trended upwards as Aequus advanced its product development of AQS-1301. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) payment of licensing fees to TRPL which were primarily incurred in Q2 2013; (ii) formulation assessment work at Corium which started and completed in Q3 and Q4 2014, respectively; and (iii) formulation optimization and prototype development work at Corium which began in Q1 2015.

- 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 the Company's negotiation of the Multi-product Collaboration Agreement and the TSX-V Listing in Q4 2014 and Q1 2015.

- 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operational activities during Q1 2015 were financed mainly by equity financings. At March 31, 2015, Aequus had cash and cash equivalents of $2,269,779 and working capital of $2,063,408. 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 end of Q1 2015. 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

	Q1 2015	**Q1 2014**
	$	**$**
Cash used in operating activities	(1,306,292)	(207,612)
Cash used in investing activities	—	—
Cash provided by financing activities	—	5,500
Net increase in cash and cash equivalents	**(1,306,292)**	**(202,112)**

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. Cash used in operating activities in Q1 2015 was higher by $1,098,680, as compared to the amount reported in Q1 2014. This was primarily due to (i) an increase in net loss by $866,594 as a result of the Company's expanded operations; and (ii) a negative net change of $472,062 in non-cash working capital which was primarily attributable to the payments of accounts payable. These negative variances were offset by the increased add-backs of non-cash expenses of $239,976, which was mainly due to the increased share-based payments in Q1 2015, as compared to share-based payments in Q1 2014. There was no cash used in investing activities in Q1 2015 or Q1 2014.

Cash provided by financing activities declined by $5,500 in Q1 2015 as compared to the amount reported in Q1 2014. Aequus had no financing transactions in both of the reporting periods. Cash received in Q4 2014 was related exercises of Common Share purchase warrants.

OUTSTANDING SHARE CAPITAL

As of May 29, 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 May 29, 2015
Common Shares issued and outstanding	33,694,127
Class A Preferred Shares	Nil
Options[(1)]	3,247,337
Warrants[(2)]	4,319,778
Agents' Warrants[(3)]	425,521

Notes:

(1) Of the 3,247,337 options outstanding, 1,904,753 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 Common Share purchase warrants are exercisable into an equal number of Common Shares at a price of $0.75 per each such warrant.

(3) Each Agents' Warrant entitles the holder to acquire one Common Share and one-half of one Agents' Underlying Warrant at a price of $0.55 per Agents' 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 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.

(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.

(iv) On July 30, 2013, the Company and TRPL entered into the 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 the 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 the 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 the 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 and executive officers of the Company. Compensation awarded to key management is listed below:

	Q1, 2015 $	Q1, 2014 $
Management fees	141,000	40,000
Consulting fees	85,734	24,000
Share-based payments	264,791	15,479
	491,525	**79,479**

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 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

FINANCIAL INSTRUMENTS AND RISKS

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**.**

[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.

ADDITIONAL INFORMATION

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