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

As of May 30, 2017

For the three months ended March 31, 2017

This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the three months ended March 31, 2017, and is performed by management using information available as of May 30, 2017. 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 consolidated interim financial statements for the three months ended March 31, 2017, and the related notes thereto ("**Interim Financial Statements**"), as well as audited consolidated financial statements for the year ended December 31, 2016, 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:

- *our ability to promote and market third party products and the anticipated timing thereof, including our ability to successfully market Tacrolimus IR and ^{PR}Vistitan^{TM} in Canada;*
- *our anticipated regulatory submissions and commercial activities in Canada in respect of Topiramate XR and Oxcarbazepine XR;*
- *the expected benefits of Topiramate XR, Oxcarbazepine XR, Tacrolimus IR and ^{PR}Vistitan^{TM};*
- *our estimates of the size and characteristics of the potential markets for Tacrolimus IR, ^{PR}Vistitan^{TM}, Topiramate XR, Oxcarbazepine XR and our internal product candidates;*
- *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 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 we will receive, and the timing and costs of obtaining, regulatory approvals in the United States, 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 and consultants 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.*
- *our ability to obtain funding for our operations, including funding for research and commercial activities;*

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; (vi) 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; (x) the Company's ability to protect patents and proprietary rights; and (xi) the Company's ability to integrate acquired or licensed products into the Company's existing pipeline and sales infrastructure.

*In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined below under the heading "Financial Instruments and Risks" and under the heading "Risk Factors" in the Company's 2016 Annual Information Form ("**2016 AIF**") filed on SEDAR (www.sedar.com). 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.*

OVERVIEW

Aequus is a growing specialty pharmaceutical company, with a foundation built on improving drug delivery of existing medications. Aequus has a diversified portfolio of internally developed clinical and preclinical stage reformulated products as well as a number of commercial stage, third party products that fulfill an identified unmet medical need. With a focus in neurology, ophthalmology and other specialty areas, our most recent addition to the development pipeline was a long-acting form of medical cannabis, where there is a high need for a consistent, predictable and pharmaceutical-grade delivery of products for patients.

Our development pipeline is focused on addressing the need for improved medication adherence through enhanced delivery systems. Aequus intends to commercialize its internal programs in Canada alongside its current portfolio of marketed established medicines and will look to form strategic commercial partnerships for these programs in other markets that would maximize the reach of its product candidates worldwide.

Our commercial infrastructure is Canadian-based, with specialty sales representatives currently promoting two first-to-market, high value branded generics. We leverage the unique demographics in Canada, such as a highly-concentrated population, to have an efficient sales force that we intend to grow through asset acquisitions, in-licenses and with our own internal development programs as they mature and enter the market. Both our development and commercial programs are supported and validated by insights from patients and physicians to ensure there is a realizable benefit for them from our work in improving drug delivery. Aequus' management team has a proven track record of successfully managing the required clinical development, regulatory approval processes and marketing of products either directly or through partners. We continue to leverage our internal capabilities and know-how to execute an efficient commercial strategy and development plan to drive shareholder value.

GROWTH STRATEGY

Aequus has evolved from a purely development stage company to a revenue-generating, fully integrated specialty pharmaceutical company with development stage products and commercial activities in Canada. We look to leverage our existing core capabilities, infrastructure and existing product portfolio to continue on our growth trajectory. Our near-term growth strategy includes the following key components:

- Advance our development programs through proof of concept clinical studies and regulatory meetings with the United States Food and Drug Association ("**FDA**"), with the objective of the programs being to add sufficient value to execute at least one regional license in the near term;
- Progressive build-out of our commercial platform, leveraging our established medicines specialty sales force in Canada to enable us to continue to in-license and sell high value branded products in Canada.

Over the past 12 months, Aequus has in-licensed two products, launched promotional activities for two products in the Canadian market, and supported the advancement of its internal programs. These activities support the key areas of Aequus' growth strategy.

HIGHLIGHTS

Development Program Activities

- Advanced our lead development program, AQS1301, a once-weekly transdermal formulation of aripiprazole through a follow-on Proof of Concept clinical study, which was completed in February 2017. This study demonstrated that steady state was achieved in week three of dosing in healthy volunteers, with comparable plasma concentrations to the orally delivered form of aripiprazole, Abilify®.

- Continued preclinical preparatory work and Clinical Trial Material development with our manufacturing partner, Corium International Inc. ("**Corium**"), for our long-acting transdermal doxylamine/pyridoxine combination patch with an expected start date for our Proof of Concept clinical study in mid-2017.

- Continued preparatory work with Camargo Pharmaceutical Services LLC ("**Camargo**"), for pre-Investigational New Drug ("**pre-IND**") meetings with the FDA which are expected to define the clinical strategy for regulatory approval in the US for each of our three internal programs. Each program is expected to follow a Section 505(b)2 New Drug Application ("**NDA**"), an abbreviated clinical pathway in which the FDA would allow Aequus to reference safety and efficacy data of the original formulation.

- On March 2nd, 2017, Aequus acquired a license from Transdermal Pharma Research Laboratories LLC ("**TRPL**") to a transdermal patch containing cannabinoids for the use in epilepsy, Multiple Sclerosis ("**MS**"), and certain other neurological disorders. This program broadens our pipeline and complements Aequus' growing neurology franchise. There has been an increased acceptance around the use of cannabinoids for epilepsy and MS in particular, however, uptake by the medical community has been limited by a need for a product that provides precise, controlled dose delivery. Aequus has since engaged with several hundred physicians to validate and select a target product profile that is best suited for the needs of patients.

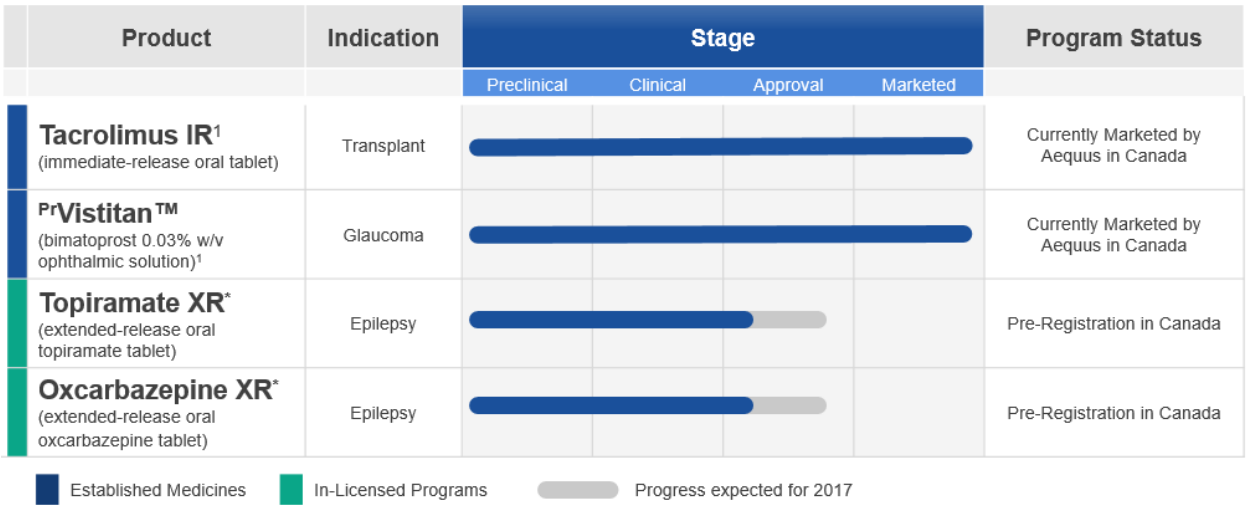
Commercial Activities

- Continued promotional efforts in Canada for PRVistitanTM, a treatment for the reduction of elevated intraocular pressure ("**IOP**") in patients with open angle glaucoma or ocular hypertension. Aequus has demonstrated our commercial capabilities by obtaining multiple provincial formulary listings within the first six month of PRVistitanTM's launch, including on the Ontario Drug Benefit Plan with equivalent status to other listed drugs in its class.

- Continued dialogue with Health Canada around the acceptability of the FDA clinical package and foreign market experience for its two in-licensed Canadian branded epilepsy products: extended-release topiramate tablets and extended-release oxcarbazepine tablets from Supernus Pharmaceuticals Inc. ("**Supernus**"). Aequus expects to file a New Drug Submission ("**NDS**") in late 2017 or early 2018. Both products are branded, once-daily, medications for the treatment of epilepsy, and have been successfully marketed by Supernus in the US since 2013.

We plan to continue our investment in the short-term to maximize the potential of our existing products, and will continue to seek opportunities to add to our Canadian commercial activities to further strengthen our existing sales infrastructure.

COMMERCIAL PRODUCTS



[1] *Aequus carries out the Canadian promotional activity for products owned by an undisclosed partner*

Figure 1. Aequus' Canadian commercial pipeline

TACROLIMUS IR

On September 29, 2015, the Company entered into a binding term sheet (the "**Term Sheet**") with an unnamed partner in Canada which provides Aequus an exclusive right to promote and market Tacrolimus IR, a first to market generic transplant product. Aequus began promotional activities for Tacrolimus IR in December, 2015 and receives a tiered revenue split on incremental sales of the product over the established baseline set prior to promotion.

Tacrolimus immediate release is an immunosuppressant used for the treatment and prevention of acute rejection following organ transplantation. Tacrolimus is part of a patient's immunosuppressive therapy prescribed chronically in their lifelong management to prevent graft rejection. Tacrolimus is recommended as a first line calcineurin inhibitor treatment by the BC Transplant consensus guidelines and is prescribed in >90% of new kidney transplant patients (OPTN/SRTR 2014). Due to the chronic risk of graft rejection, tacrolimus has been classified as a Critical Dose Drug with a Narrow Therapeutic Index. In Canada, tacrolimus is available in an immediate release form, marketed under the brand name of Prograf® in Canada, and in an extended-release form, marketed under the brand name of Advagraf® in Canada. Aequus is promoting the first to market generic version of Prograf®.

In 2015, the immunosuppressive market in Canada reached $241M in sales, with tacrolimus products accounting for $100M. With the assistance of Aequus' promotional efforts and commercial team, the tacrolimus IR generic grew 90% year-over-year in 2016 when compared to 2015. Further, the 1mg dose which represents the majority of sales, grew 112% year-over-year in 2016 when compared to 2015.

PRVISTITAN™ (bimatoprost 0.03%, ophthalmic solution)

The second product promoted by Aequus' salesforce is a branded generic ophthalmology product, PRVistitan™ (bimatoprost 0.03%, ophthalmic solution), obtained through the acquisition of TeOra Health Ltd. ("**TeOra**") on July 13, 2015. Commercial activities for this product commenced in May 2016. Similar to Tacrolimus IR, Aequus will split revenues of this product with its partner in a tiered structure.

Bimatoprost 0.03% is a prostaglandin approved by Health Canada for the reduction of elevated IOP in

patients with open angle glaucoma or ocular hypertension. The Canadian glaucoma market in 2015 was estimated to be over $182 million, of which prostaglandins remain one of the primary treatment options for lowering IOP in glaucoma. There were an estimated 350,000 people living with glaucoma in Canada in 2015. The disease is the second leading cause of blindness worldwide, but is asymptomatic, which means that more than half of people are unaware they have it. The incidence of glaucoma is highest in patients above the age of 80, but onset may be as early as 40 years of age. IOP-lowering drugs are prescribed as soon as the disease is diagnosed and must be taken chronically to prevent vision loss. Prostaglandins are the first-line approach among IOP-lowering agents, in 2015 bimatoprost accounted for 42% of all prostaglandin prescription volume in Canada (IMS Health).

PRVistitan™, which was approved by Health Canada in 2014, is currently the only marketed version of 0.03% bimatoprost ophthalmic solution in Canada.

TOPIRAMATE XR and OXCARBAZEPINE XR *(marketed under the tradenames of Trokendi XR® and Oxtellar XR® in the United States)*

The third and fourth products in the Company's commercial pipeline were acquired pursuant to the Company's agreement with Supernus dated February 12, 2016 (as replaced on June 15, 2016 to amend certain licensing fees, the "**Supernus Agreement**"), whereby the Company acquired the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. Both products are branded, once-daily, extended-release anti-epileptic drugs ("**AEDs**"), and have been successfully marketed by Supernus in the U.S. since 2013 under the tradenames Trokendi XR® and Oxtellar XR®, respectively.

Under the terms of the Supernus Agreement, Aequus will be responsible for the regulatory submission and commercial activities for both products in Canada. Supernus is eligible to receive milestone payments and royalties from product sales in Canada. Aequus has since had on-going dialogue with Health Canada around the acceptability of the FDA clinical package and foreign market experience, and expects to file an NDS in 2017.

Topiramate XR
(under the tradename of Trokendi XR® in the United States)

Topiramate XR is a once-daily topiramate product designed to improve patient compliance and to show a better pharmacokinetic profile than the currently available immediate release products, which must be taken multiple times per day. The currently approved immediate release form of topiramate in Canada is approved for use in epilepsy and prophylactic migraine. Topiramate XR's pharmacokinetic profile results in lower peak plasma concentrations, higher trough plasma concentrations, and slower input rate. This results in smoother and more consistent blood levels of topiramate than immediate release topiramate formulations can deliver. Such a profile may mitigate blood level fluctuations that are frequently associated with many of the symptomatic side effects or breakthrough seizures that patients can suffer when taking immediate release products. Side effects can lead patients to skipping doses, whereupon the increased non-adherence could place them at higher risk for breakthrough seizures.

Oxcarbazepine XR
(under the tradename of Oxtellar XR® in the United States)

Oxcarbazepine XR is a once-daily oxcarbazepine product with a novel pharmacokinetic profile showing lower peak plasma concentrations, a slower rate of input, higher trough plasma concentrations, and smoother and more consistent blood levels compared to immediate release products. The currently approved immediate release form of oxcarbazepine in Canada is approved for use in partial seizures in epilepsy. Oxcarbazepine XR has the potential to improve the tolerability of oxcarbazepine and thereby

reduce side effects. This could enable more patients to tolerate higher doses of oxcarbazepine which would permit them to benefit from the resulting improved efficacy and greater seizure control, which has previously been reported in patients taking higher doses. Patients taking higher doses of immediate release oxcarbazepine are often unable to tolerate the increased side effects. In addition, Oxcarbazepine XR once-daily dosing regimen is designed to improve patient compliance compared to the currently available immediate release products that must be taken multiple times per day.

The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Topiramate XR and Oxcarbazepine XR include: (i) improved patient adherence with a once-daily dosing regimen, making it more probable that patients maintain sufficient level of medication in their bloodstream to protect against seizures; (ii) delivery of lower peak plasma concentrations and lower input rate over an extended time period, resulting in smooth and consistent blood levels of topiramate or oxcarbazepine during the day; and (iii) avoidance of blood level fluctuations that can be associated with symptomatic side effects or breakthrough seizures.

PRODUCT DEVELOPMENT PIPELINE

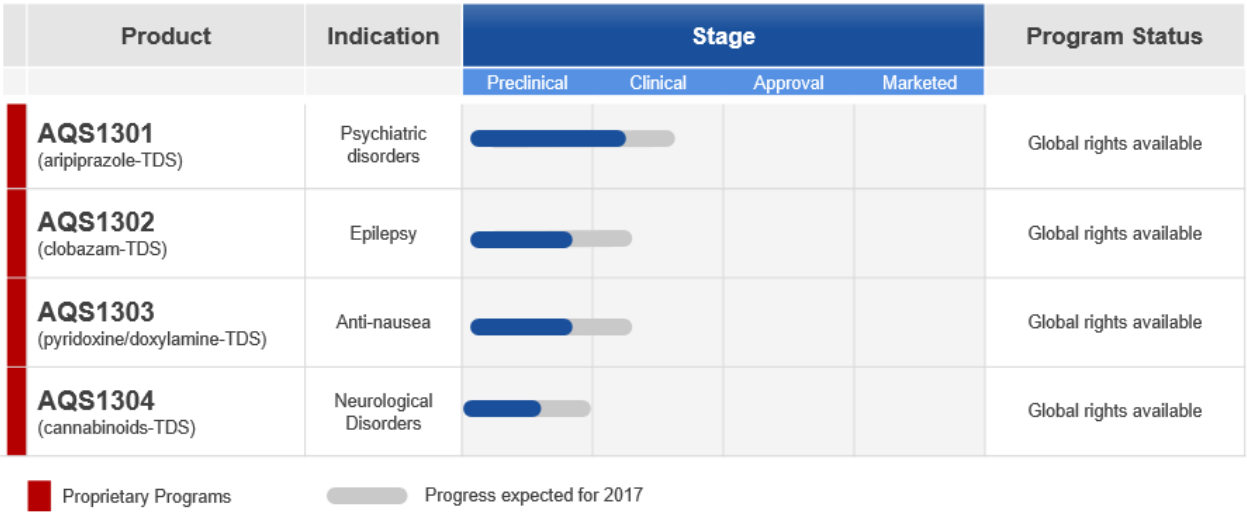


Figure 2. Aequus' Development Pipeline

AQS1301 – Once-weekly transdermal aripiprazole

Key Highlights

- AQS1301 is a once-weekly transdermal formulation of aripiprazole
- Among the currently approved indications for aripiprazole, extensive primary research done by Aequus has validated the most suitable patient candidates for a transdermal patch to include major depressive disorder in elderly patients in a homecare setting, autistic patients suffering from irritability, as well as newly diagnosed and mild patients with Bipolar I Disorder
- Two Proof of Concept clinical studies have been successfully completed in healthy volunteers
- Pre-IND meeting will confirm regulatory path forward, anticipating approval via the Section 505(b)(2) accelerated approval pathway in the United States

Product Overview

Aripiprazole is an atypical anti-psychotic sold under the brand name Abilify®. Originally approved and marketed in 2002 for schizophrenia, Abilify® is currently sold in over 65 countries and regions. Since its initial approval, aripiprazole has seen a label expansion in the United States to include acute treatment of manic and mixed episodes associated with bipolar I, adjunctive treatment of major depressive disorder, irritability associated with autistic disorder, and treatment of Tourette's disorder. In 2015, Abilify® saw its first generic competition in the USA as its patent exclusivity expired. For 2015, aripiprazole US sales totaled $6.3 billion, with branded Abilify® representing 70% of sales revenues. Aripiprazole remains one of the most commonly prescribed anti-psychotics globally, with the compound currently available in oral tablets, oral solution, and intramuscular injection.

AQS1301 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, AQS1301 is intended to promote enhanced patient compliance.

Aequus has advanced the once-weekly, transdermal aripiprazole patch with its development and manufacturing partner, Corium. Aequus successfully completed an initial Proof of Concept clinical study for AQS1301 in December 2015, demonstrating that sustained, seven-day delivery of therapeutic doses may be possible with the current formulation. A follow-on Proof of Concept clinical study in healthy volunteers was completed in February 201**7**, demonstrating that steady state plasma concentrations were achieved by week three with relative concentrations of aripiprazole and its active metabolite, dehydroaripiprazole, comparable to oral dosing of Abilify®.

It is expected that this product would follow a Section 505(b)(2) NDA with the FDA for regulatory approval in the United States, where 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. Aequus engaged Camargo in October 2016 to prepare for a pre-IND meeting with the FDA, expected by mid-2017 in an effort to further define the clinical strategy for regulatory approval in the United States.

Aequus owns a patent for the transdermal formulation of aripiprazole that has been issued/allowed in six major countries or regions, namely the United States, Russia, Mexico, Japan, Canada and Australia, and is pending in multiple additional territories.

AQS1302 – Long-acting transdermal clobazam

Key Highlights

- Clobazam is used for the treatment of epilepsy globally, with the exception of the United States where it is approved specifically for a severe form of epilepsy, Lennox-Gastaut Syndrome ("**LGS**"). Clobazam is also used for the treatment of anxiety in European and Latin American countries.
- AQS1302 is expected to provide the first transdermal, long-acting alternative to oral AED
- Skin tolerability studies to date have shown positive safety data, Aequus expects to enter Proof of Concept clinical studies in 2017, anticipating approval via the Section 505(b)(2) accelerated approval pathway in the United States

Product Overview

Clobazam is a unique AED associated with fewer sedative side effects than other agents in its class (Sankar 2012). It is currently marketed in markets outside of the United States under the brand name Frisium® for the treatment of epilepsy, anxiety and alcohol withdrawal. It was approved in the United States in 2013 for LGS with an orphan designation under the brand name Onfi®. In 2015, US sales of clobazam reached $370 million USD. Clobazam is currently available as oral tablets and as a solution, dosed twice daily, and can be challenging for a caregiver or parent to administer, particularly in patients with severe, debilitating epilepsies such as LGS where difficulty swallowing is common. A long-acting form of clobazam in a non-invasive and easy to use patch is being developed to relieve this burden on patients and caregivers.

The formulation for AQS1302 is currently being optimized and has shown *in-vitro* to deliver the flux profile required for once-daily and up to seven days of therapeutic doses. Aequus has completed skin irritation and sensitization study *in-vivo* in animal models and expects to advance this program into a Proof of Concept clinical study in 2017. Similar to AQS1301, Aequus expects to follow a 505(b)(2) pathway in the United States for AQS1302 which will be further defined as the Company obtains Proof of Concept clinical data and obtains feedback from the FDA through a pre-IND meeting to further define the clinical plan.

Aequus has filed an international patent application with the US Patent and Trademark Office ("**USPTO**") that covers transdermal extended-release formulations of clobazam and owns the worldwide rights to the formulations described in the patent application.

AQS1303 – Long-acting transdermal pyridoxine / doxylamine

Key Highlights

- The combination of pyridoxine / doxylamine currently approved is first-line therapy and the only on-label intervention for nausea and vomiting of pregnancy ("**NVP**") dosed several times per day
- Aequus' transdermal alternative provides a non-oral and long-acting alternative to the oral form
- Skin tolerability studies to date have shown favorable safety data, Aequus expects to enter Proof of Concept clinical studies by mid-2017, anticipating approval via the 505(b)(2) accelerated approval pathway in the United States.

Product Overview

Pyridoxine/doxylamine is currently marketed as Diclegis® (United States)/Diclecitin® (Canada) for the treatment of NVP, as an oral tablet dosed up to four times per day. Diclegis is the only FDA approved medication for morning sickness in pregnant women and in 2015 reached sales in the United States of approximately U.S.$120 million. A long-acting transdermal form of pyridoxine/doxylamine is being developed by Aequus to address the risk of missed doses due to emesis (vomiting) and to provide consistent symptomatic relief.

Aequus has demonstrated the current formulation can deliver the flux profile *in-vitro* required for once-daily and up to seven days of therapeutic doses. Aequus has completed a skin irritation and sensitization study *in-vivo* in animal models and is currently manufacturing Clinical Trial Material with an expectation to advance this program into a Proof of Concept clinical study by mid-2017. Aequus expects to follow a 505(b)(2) pathway in the United States for AQS1303 which will be further defined as the Company obtains Proof of Concept clinical data and presents the FDA the clinical plan during a pre-IND meeting.

Aequus has filed an international patent application with the USPTO that covers transdermal extended-release formulations of the combination of doxylamine and pyridoxine. Aequus owns the worldwide rights to the formulations described in the patent application.

Clinical Development Timeline

Aequus plans to advance the development of AQS1301 through to completion of the Phase 1 Bioequivalence study in the next two years. Concurrent with the Phase 1 clinical programs for AQS1301, Aequus anticipates engaging in partnering discussions relating to commercialization of the product in certain markets. In the next two years, Aequus also plans to accelerate its internal programs, AQS1302, AQS1303, and its recently announced potential program in medical cannabis, through formulation development and Proof of Concept clinical studies. The Company's product development progress is contingent upon a number of factors. See the heading "*Financial Instruments and Risks*" below and the heading "*Risk Factors*" in the Company's 2016 AIF. There can be no assurances that Aequus will complete each stage of development in accordance with the timelines set out above, or at all.

Out-Licensing Activities

Aequus continues to pursue development collaborators and marketing partners for its internal programs in markets outside of Canada, following the completion of Proof of Concept clinical studies or Phase I/II clinical studies.

OVERALL PERFORMANCE

Since its inception in January 2013, Aequus has accumulated a deficit of $14,877,368 as at March 31, 2017. The Company has started to generate revenue from its commercial platform during the year ended December 31, 2016. Aequus expects its operating losses to continue into the next fiscal year as it builds its commercial platform and invests in the product advancement of AQS1301, AQS1302, AQS1303 and its recently announced potential program in medical cannabis.

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, commercial product portfolio, and corporate growth. However, if Aequus' product development and commercial 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 $1,013,433 ($0.02 per Common Share) in the three months ended March 31, 2017 ("**Q1 2017**") and $1,164,665 ($0.03 per Common Share) in the three months ended March 31, 2016 ("**Q1 2016**"). The decrease in net loss was primarily due to the Company growth of revenue when comparing Q1 2017 and Q1 2016. The Company incurred slightly higher operating expenditures in Q1 2017 compared to Q1 2016 as the Company increased spending toward its development programs, specifically carrying out its AQS1301 follow-on Proof of Concept study and preparatory work including manufacturing of Clinical Trial Material for AQS1303. This was offset by decreased business development spending and decreased promotional spending relating to the launch of Tacrolimus IR and [PR]Vistitan™ between the comparative periods.

Specifically, the decreased loss of $151,232 between the two reporting periods was due to an increase in revenue of $176,919, an increase of $229,180 in research and development expenses, a decrease of $94,718 in sales and marketing expenses, a decrease of $110,801 in general administration expenses, and a decrease of $2,026 in other income.

The following table provides an overview of the financial results in Q1 2017 as compared to those in Q1 2016:

	Q1 2017 $	Q1 2016 $
Revenue	293,002	116,083
Operating expenditures:		
Research and development expenses	398,273	169,093
Sales and marketing expenses	349,145	443,863
General administration expenses	559,639	670,440
Loss before other income	(1,014,055)	(1,167,313)
Other income	622	2,648
Net loss	**(1,013,433)**	**(1,164,665)**

REVENUES

The Company recorded revenue growth of 152% comparing Q1 2017 to Q1 2016. Revenues are attributable to its promotional activities for its third party products, Tacrolimus IR, which launched in December 2015, and [PR]Vistitan™, which launched in April 2016. Revenues are expected to continue in the current year as these products continue to penetrate market share held by the branded equivalent and similar medications within the class. Sales levels are expected to be inconsistent and unpredictable over the next twelve months as reimbursement activities and inventory stock-up occurs for each product.

Due to the early stage nature of the Company, management assesses the impact of inflation and specific price changes to the company's total revenue to not be measurable at this time.

Research and Development Expenses

The Company incurred research and development expenses of $398,273 in Q1 2017 as compared to $169,093 in Q1 2016. The increase in research and development expenses by $229,180 was attributable to the Company completing the second Proof of Concept clinical study on AQS 1301, preparation for AQS1302 and ASQ1303 Pre-IND Meetings and manufacturing of Clinical Trial Materials for AQS1303. Expenditures in Q1 2016 were slower as the Company completed the initial Proof of Concept study on AQS1301 in February 2016. Specifically, variances in research and development expenditures Q1 2017 compared to Q1 2016 are as follows:

- Patent and intellectual property costs increased by $28,474 in Q1 2017 compared to Q1 2016 due to increased services and filing fees related to an additional patent for AQS1301. In Q1 2016, patent spending was slowed as the Company awaited the AQS1301 patent conversion process in different jurisdictions.

- Subcontract research and development costs increased by $161,452 for Q1 2017 compared to Q1 2016 due to the completion of the second Proof of Concept clinical study for AQS1301 as well as the manufacturing of clinical trial materials for AQS1303. In Q1 2016, costs were associated with the completion of the initial Proof of Concept clinical study for AQS1301 and a renegotiation of cost for subcontract work in the preceding year. The renegotiation allowed the Company to recover $67,719 of development costs from its subcontractor.

- Share-based payments decreased by $2,519 from Q1 2017 to Q1 2016 as there are fewer unvested stock options to be amortized relating to research and development consultants and employees.

- Other research and development costs including consulting and management fees, office, salaries and wages, and travel and accommodation, increased by $41,773 in Q1 2017 compared to Q1 2016 due to increased regulatory consulting as the Company prepared for the Pre-IND meeting for its three development programs. In Q1 2016, the Company had slower development activities as the Company prepared for the follow-on Proof of Concept clinical trial for AQS1301.

The following table summarizes the Company's research and development expenditures in Q1 2017 and Q1 2016:

	Q1 2017	Q1 2016
	$	$
Consulting and management fees	108,362	63,715
Patent and intellectual property protection	33,536	5,062
Salaries and wages	2,118	3,622
Share-based payments	7,151	9,670
Subcontract research and development costs	245,991	84,539
Travel and accommodation	1,115	2,485
	398,273	**169,093**

Sales and Marketing Expenses

Aequus incurred sales and marketing expenses of $349,145 in Q1 2017 as compared to $443,863 in Q1 2016, a decrease of $94,718, in connection with its commercial division. Commercial activities in Q1 2017 and Q1 2016 were related to the launch activities and on-going sales and marketing of Tacrolimus IR and [PR]Vistitan™ in Canada. Specifically, variances in sales and marketing expenditures in Q1 2017 compared to Q1 2016 are as follows:

- Consulting and management fees decreased by $48,546 in Q1 2017 compared to Q1 2016 as the Company reduced marketing consultant and market access spend compared to Q1 2016, when the Company was preparing to launch [PR]Vistitan™.

- Depreciation and amortization, and share-based payments for Q1 2017 were $45,917 and $25,097, respectively, compared to $42,398 and $60,444, respectively, in Q1 2016. The amortization costs were related to the acquisition costs of TeOra. Aequus allocated $847,945 and $391,440 of its acquisition costs to intangible assets and deferred share-based payments, respectively. Intangible assets are amortized over a five-year period using a straight-line method; one half of the amortization is recognized in the year of acquisition. Share-based payments to TeOra principals joining Aequus as CCO and Vice President of Marketing, are deferred and expensed using the graded vesting approach.

- Subcontract costs for salesforce covering promotional and marketing activities for Tacrolimus IR and [PR]Vistitan™ in different regions in Canada was $150,810 in Q1 2017 and $142,598 in Q1 2016.

- Other sales and marketing expenditures including advertising and promotion, printing costs, internal support staff, as well as travel and accommodation decreased by $22,556 in Q1 2017 compared to Q1 2016. The Company increased spending on pharmacy sales data to support commercial activities and decreased advertising spend relating to launch activities including publication reprints and ad boards for Tacrolimus IR and [PR]Vistitan™.

The following table summarizes the Company's sales and marketing expenditures in Q1 2017 and Q1 2016:

	Q1 2017	Q1 2016
	$	$
Advertising and promotion	—	26,855
Consulting and management fees	50,925	99,471
Depreciation and amortization	45,917	42,398
Printing and other expenses	15,637	1,400
Salaries and wages	10,590	18,500
Subcontract salesforce	150,810	142,598
Share-based payments	25,097	60,444
Travel and accommodation	50,169	52,197
	349,145	**443,863**

General Administration Expenses

General administration expenses are $559,639 in Q1 2017 compared to $670,440 in Q1 2016. The decrease of $110,801 in Q1 2017 compared to Q1 2016 in general administration expenses is primarily due to a decrease in business development and regulatory consultant spending, legal and professional fees, regulatory, transfer agent and listing fees, and share based payments offset by increases in salaries and benefits and other general administration overhead, the latter of which consists of rent, insurance, telecommunications and other overhead expenses. Specifically, variances in general administration expenditures in Q1 2017 as compared to those in Q1 2016 are as follows:

- Consulting and management fees decreased by $104,430 as, during Q1 2016, the Company assessed different business development and financing opportunities and granted Management performance bonuses linked to corporate finance milestones as detailed in the Related Party Transactions section in this MD&A.

- Legal and professional fees decreased by $15,835 as Q1 2016 had increased expenses due to the exploration of business development opportunities and has decreased activity during Q1 2017.

- Regulatory, transfer agent and listing fees declined by $3,530 due to a reduction in regulatory stock exchange fees and transfer and escrow agent fees

- Share-based payments decreased by $20,142 comparing Q1 2017 and Q1 2016. This was due to options granted fully vesting in the preceding year and there not being new options granted in Q1 2017.

- Other general administration overhead increased by $19,168 primarily due to increased rent expense due to decreased sublease tenant payments and increased amortization due to the purchase of a telephone system.

- Salaries and benefits increased by $12,513 due to severance costs.

- Travel and accommodation costs increased by $1,455 due to attendance of business development meetings and investor tradeshows in Q1 2017.

The following table summarizes the Company's general administration expenditures in Q1 2017 and Q1 2016:

	Q1 2017 $	Q1 2016 $
Consulting and management fees	255,177	359,607
Legal and professional fees	69,094	84,929
Other general administration expenses and listing fees	89,065	69,897
Regulatory, transfer agent fees	14,601	18,131
Salaries and benefits	28,169	15,656
Share-based payments	61,642	81,784
Travel and accommodation	41,891	40,436
	559,639	**670,440**

Use of Proceeds

On January 12, 2016, the Company closed a non-brokered private placement in the United States of 1,797,422 Common Shares and a non-brokered public offering in Canada of 3,500,000 Common Shares at a price of $0.50 per Common Share for aggregate gross proceeds of approximately $2,648,711. A comparison of the use of proceeds disclosed in the prospectus to management's current estimate of the use of proceed is as follows:

	Proposed Use of Proceeds	Actual Use of Proceeds
AQS1301 Proof of Concept studies	$244,000	$75,000
AQS1301 Bioequivalence study	$293,000	$Nil
AQS1301 Registration study preparation	$100,000	$Nil
AQS1302 and other pipeline programs	$364,000	$470,000
Patent conversions and applications	$78,000	$110,000
Business development, general administration and working capital	$2,236,138	$1,993,000
	$3,315,138	**$2,648,000**
		(Unaudited)

The amount spent on product development for AQS1301 was $75,000 including remaining costs associated with the initial single dose exposure Proof of Concept clinical study. The preparatory work for the Bioequivalence study and other potential Registration clinical studies involved on-going work with Camargo to prepare for a pre-IND meeting with the US FDA, which is expected in mid-2017, to further define the regulatory requirements for approval in the United States. We incurred $470,000 of expenses associated with the development of additional pipeline programs, specifically covering the advancement of the formulations for AQS1302 and AQS1303. Patent costs of $110,000 were associated with the conversion of the provisional applications for both AQS1302 and AQS1303 into international patent applications with the USPTO. Additionally, there were services and filing fees associated with patents granted for AQS1301. The expenses associated with business development, general administration and working capital totaled $1,993,000 and mainly involve our internal costs to support operations.

On September 13, 2016 the Company closed an offering of Common Shares. The offering was co-led by Cormark Securities Inc. and Canaccord Genuity Corp., and consisted of 9,146,400 Common Shares sold at a price of $0.30 per Common Share, for aggregate gross proceeds of $2,743,920. The following table sets out a comparison management's current estimate of how the Company used the net proceeds following the closing date of the financing against the intended use of proceeds for both the maximum and minimum offering amounts, being $4,000,200 and $2,000,100, respectively.

	Proposed Use of Proceeds (Minimum Offering)	Proposed Use of Proceeds (Maximum Offering)	Actual Use of Proceeds
AQS1301 Proof of concept clinical studies	$175,000	$175,000	$210,400
AQS1301 Patch Optimization	NIL	$300,000	$Nil
AQS1302 Tech Transfer	NIL	$240,000	$88,000
AQS1302 Proof of Concept clinical study	NIL	$160,000	$Nil
AQS1303 Tech Transfer	$240,000	$240,000	$117,000
AQS1303 Proof of Concept clinical study	$NIL	$175,000	$165,500
Regulatory consulting	$180,000	$270,000	$131,600
Sales and marketing, business development, general administration and working capital	$637,680	$1,532,773	$2,031,400
	$1,232,680	**$3,092,773**	**$2,743,900**
			(Unaudited)

The amount spent on product development for AQS1301 from September 13, 2016 to March 31, 2017 was $210,400 including stability testing of the clinical trial material in preparation for the follow-on multi-dose exposure Proof of Concept clinical study, consulting and filing fees for the Clinical Trial Application with Health Canada. No additional patch optimization was required during this period. We incurred $88,000 of expenses associated with finalizing the formulation feasibility studies with TRPL in anticipation of a technology transfer AQS1302 to our manufacturer. Following formulation development with TRPL for AQS1303, we incurred $117,000 in the technology transfer to Corium in preparation for a Proof of Concept clinical study expected in mid-2017. The Company has spent $165,500 towards the development of Clinical Trial Materials for the AQS1303 Proof of Concept clinical study. Regulatory consulting fees of $131,600 primarily included consulting fees associated with preparations for pre-IND meetings with the FDA for each of our three development programs, expected in 2017. The expenses associated with sales and marketing, business development, general administration and working capital totaled $2,031,400 and mainly involve our internal costs to support operations.

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			
	March 31, 2017	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
	("Q1 2017")	**("Q4 2016")**	**("Q3 2016")**	**("Q2 2016")**
	$	**$**	**$**	**$**
Revenue	293,002	166,901	300,549	118,100
Research and development expenditures	398,273	295,115	371,824	291,748
Sales and marketing expenditures	349,145	419,763	346,026	557,712
General administration expenditures	559,639	639,872	703,274	656,486
Other income (loss)	622	19,156	31,043	(1,319)
Net loss for the period	(1,013,433)	(1,168,693)	(1,089,532)	(1,389,165)
Basic and diluted loss per common share	(0.01)	(0.02)	(0.02)	(0.03)

	Quarter Ended			
	March 31, 2016	**December 31, 2015**	**September 30, 2015**	**June 30, 2015**
	("Q1 2016")	**("Q4 2015")**	**("Q3 2015")**	**("Q2 2015")**
	$	**$**	**$**	**$**
Revenue	116,083	—	—	—
Research and development expenditures	169,093	454,557	704,073	606,272
Sales and marketing expenditures	443,863	555,177	—	—
General administration expenditures	670,440	363,918	709,121	548,315
Other income (loss)	2,648	(4,925)	49,514	11,667
Net loss for the period	(1,164,665)	(1,378,577)	(1,363,680)	(1,142,920)
Basic and diluted loss per common share	(0.03)	(0.04)	(0.04)	(0.03)

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

- Revenue was first recorded in Q1 2016. The Company generated revenue from the promotional and marketing profit share arrangement on sales of tacrolimus IR, which launched in December 2015, and its second commercial product, [PR]Vistitan™, which launched in April 2016. Revenue is expected to have variations quarter to quarter over the next year, as customers stock up and product reimbursement is achieved in individual provinces across Canada.

- Research and development expenditures trended upwards until Q3 2015 as Aequus completed formulation development and advanced AQS1301 through Proof of Concept clinical studies. These expenditures fluctuated more significantly in certain quarters due to the costs associated with (i) formulation optimization and prototype development work of AQS1301 which began in Q1 2015 and completed in Q3 2015; (ii) clinical trial material manufacturing of AQS1301 in Q3 2015; and (iii) Proof of Concept clinical studies of AQS1301, the first of which started in Q3 2015 and completed in Q1 2016, and the second, follow-on study which started in Q4 2016 and completed in Q1 2017. Furthermore, the development of clinical trial materials for AQS1303 and the preparation for Pre-IND meetings for all three development programs commenced in Q1 2017.

- Sales and marketing expenses were first accounted for separately in Q4 2015. Certain sales and marketing expenditures in Q3 2015 were reclassified in Q4 2015; otherwise, sales and marketing expenses were upward trending as the Company prepared for the marketing launch of Tacrolimus IR and [PR]Vistitan™ in Canada. Spending has stabilized beginning Q3 2016 and onwards, with adequate allocation of resources for the current product offering.

- General administration expenses fluctuated based on corporate finance and business development activities. These activities had led to (i) the listing of common shares of the Company (the "**Common Shares**") on the OTCQB listing in United States and the TSX-V Listing in Q3 2015 and Q1 2015, respectively, (ii) signing of a multi-product collaboration agreement with Corium in Q2 2015, (iii) acquisition of TeOra Health in Q3 2015 and (iv) signing of a Canadian commercial license with Supernus for Topiramate Extended-Release and Oxcarbazepine Extended-Release in Q1 2016. Otherwise, general and administration trended upwards as the Company added personnel and built its corporate infrastructure to support its expanded operations.

- Other income (loss) fluctuated based on (i) the receipt of various government incentives including research grants, new graduate employment grants and refundable research tax credits and (ii) foreign exchange losses from transactions requiring U.S. dollar settlement and translation due to the strengthened U.S. dollar against the Canadian dollar until Q1 2016.

Sources and Uses of Cash

	Q1 2017 $	Q1 2016 $
Cash used in operating activities	(1,063,798)	(1,712,797)
Cash used in investing activities	(48,883)	(478,940)
Cash provided by financing activities	4,698,806	1,795,602
Net (decrease) increase in cash and cash equivalents	3,586,125	(396,135)

Cash used in operating activities is comprised of net loss, add-back of non-cash expenses, and net change in non-cash working capital items. Cash used in operating activities decreased to $1,063,798 in Q1 2017 from $1,712,797 in Q1 2016. This decrease of $648,999 is primarily due to less of a negative change in non-cash working capital negative. In Q1 2017, negative non-cash working capital was $191,062 and $743,224 in Q1 2016 which was primarily attributable to the payment of accounts payable items.

Cash used in investing activities during Q1 2017 was related to the purchase of a telephone system and patient website whereas investing activity in Q1 2016 related to an upfront payment made for the Supernus license.

Cash provided by financing activities increased by $2,903,204 in Q1 2017 as compared to the amount reported in Q1 2016. On March 13, 2017, the Company closed a public offering of units (the "**Units**") at a price of $0.30 per Unit, for aggregate gross proceeds to the Company of $5,175,000, pursuant to the terms of an underwriting agreement dated March 6, 2017 between the Company and Canaccord Genuity Corp.

OUTSTANDING SHARE CAPITAL

As of May 30, 2017, there were no Class A Preferred shares without par value in the capital of the Company ("**Class A Preferred Shares**") issued and outstanding, 71,223,458 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	Number Outstanding as of May 30, 2017	Number Outstanding as of March 31, 2017
Common Shares issued and outstanding[4]	71,223,458	71,065,021
Class A Preferred Shares	Nil	Nil
Options[2]	5,175,337	5,225,337
Warrants[1]	8,625,000	8,625,000
Broker Warrants[3]	986,250	986,250

On March 13, 2017, the Company closed an agreement with Canaccord Genuity Corp. to which they agreed to purchase, on a bought deal basis, 17,250,000 units at a price of $0.30 per unit, for aggregate gross proceeds to the Company of $5,175,000.

Notes:

(1) In conjunction with the March 2017 financing, the Company issued 8,625,000 common share purchase warrants at

an exercise price of $0.45.

(2) Subsequent to March 31, 2017, 50,000 common share stock options were forfeited on April 13, 2017. Of the 5,175,337 options outstanding, 4,122,837 are vested and exercisable at a weighted average price of $0.40 per Common Share. The remaining 1,052,500 options are not vested and have a weighted average price of $0.39 per Common Share.

(3) 123,730 broker warrants were issued in connection with the Company's October 2015 financing and each entitles the holder thereof to acquire one Common Share at a price of $0.50 per Common Share until October 30, 2017. In conjunction with the March 2017 financing, the Company also issued 862,500 broker warrants (the "**2017 Broker Warrants**"). Each 2017 Broker Warrant entitles a holder to acquire one Unit at a price of $0.30 per Unit.

(4) Subsequent to March 31, 2017, 158,437 common shares were issued in exchange for services valued at $40,992 (USD 30,040).

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 its 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 (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:

	Q1 2017 $	Q1 2016 $
Subcontract research and licensing fees[i]	—	135,817
Management fees[ii] [iii] [iv]	111,000	151,000
Consulting fees [v] [vi] [vii] [viii]	79,506	103,465
	190,506	**390,282**

[i] On August 1, 2013, the Company and Transdermal Pharma Research Laboratories LLC ("**TRPL**"), 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. TRPL is controlled by Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis, two of the current directors of the Company. Pursuant to the terms of this research service contract which expired on November 30, 2016, 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 fees of $Nil and $135,817 during the three months ended March 31, 2017 and 2016, respectively.

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $25,000 (December 31, 2016 – $25,000) due to TRPL.

[ii] Effective September 1, 2014, the Company entered into a management services agreement (the "**Northview Agreement**") with Northview Lifesciences (formerly Northview Ventures and Associates General Partnership) ("**Northview**"), Doug Janzen, and Anne Stevens. Mr. Janzen is Chairman, President, and Chief Executive Officer of the Company and Ms. Stevens is the Corporate Secretary, Chief Operating Officer and a director of the Company. Pursuant to the Northview Agreement, Mr. Janzen, Ms. Stevens and other employees of Northview, directed and managed the affairs and the day-to-day operations of the Company at a monthly rate of $27,000. Effective February 1, 2016, the monthly rate was increased to $37,000. Northview was entitled to incentive bonuses upon the satisfaction of specified milestones. Management fees are allocated to research and development and general administration based on Mr. Janzen and Ms. Steven's time involvement in the respective activities. The Northview Agreement expired on November 30, 2016. During the three months ended March 31, 2017, Northview did not charge any fees. During the three months ended March 31, 2016, Northview charged total management fees of $151,000 including a bonus of $50,000 for completing a financing milestone.

As of March 31, 2017, the Company included in its account receivable $12,980 due from Northview. Subsequent to March 31, 2017, Northview paid $7,095 relating to the receivable amount owing. As of December 31, 2016, the Company included in its accounts payable and accrued liabilities $50,115 due to Northview.

[iii] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("**NVI**") and Doug Janzen. Mr. Janzen is the Chairman, President, and Chief Executive Officer of the Company. Northview Ventures Inc. will be compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017 then $15,000 per month thereafter. During the three months ended March 31, 2017, NVI received $75,000 in compensation (2016 - $Nil).

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2016 – $26,250) due to NVI.

[iv] Effective December 1, 2016, the Company entered into a consulting agreement with Crecera Consulting Inc. ("**Crecera**") and Anne Stevens. Ms. Stevens is the Corporate Secretary, Chief Operating Officer and a director of the Company. Crecera will be compensated at a monthly rate of $12,000 from December 1, 2016 to March 31, 2017 then $12,500 per month thereafter. During the three months ended March 31, 2017, Crecera received $36,000 (2016 - $Nil) in compensation.

As of March 31, 2017, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2016 – $12,600) due to Crecera.

[v] The Company entered into a consulting service agreement with Mr. Ian Ball who serves as the Chief Commercial Officer of the Company, effective July 28, 2015. Pursuant to this consulting agreement with a term to July 31, 2019, Mr. Ball is compensated at a monthly rate of $12,000. During the three months ended March 31, 2017, Mr. Ball charged total consulting fees of $36,000 (2016 - $36,000).

As of March 31, 2017, the Company has included in its accounts payable and accrued liabilities $9,318 (December 31, 2016 - $16,864) due to Mr. Ball.

[vi] 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 December 31, 2017, Dr. McAfee was compensated at a daily rate of US$1,000.

During the three months ended March 31, 2017, Dr. McAfee charged total consulting fees of $20,048 (2016 - $33,465.)

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $Nil (December 31, 2016 - $6,307) due to Dr. McAfee.

[vii] The Company entered into a consulting service agreement with Ann Fehr and Fehr & Associates on July 22, 2016. Mrs. Fehr is the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $100 per hour. Fehr & Associates also provides a part time controller and book-keeping services to the Company. During the three months ended March 31, 2017, Fehr & Associates charged total consulting fees of $23,458 for CFO and accounting services.

As of March 31, 2016, the Company has included in its accounts payable and accrued liabilities $2,321 (December 31, 2016 - $5,481) due to Fehr & Associates.

[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 2017 $	Q1 2016 $
Management fees, General & administration	83,250	91,200
Management fees, Research & development	27,750	59,800
Consulting fees, General & administration	36,058	34,000
Consulting fees, Research & development	20,048	33,465
Consulting fees, Sales & marketing	23,400	36,000
Share-based payments, General & administration	26,012	56,500
Share-based payments, Research & development	3,131	825
Share-based payments, Sales & marketing	18,937	62,611
	238,586	**374,402**

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

The following is an overview of new accounting standards that the Company adopted effective January 1, 2017:

- **IAS 7** *Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)* - These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to

provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2017.

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 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 Contracts with Customers* - This 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, 2018.

- **IFRS 2** *Classification and Measurement of Share-based Payment Transactions* – This standard was issued in June 2016. The amendments provide requirements on accounting for the effect of vesting and non-vesting conditions on the measurement of cash settled share-based payments, share-based transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transactions from cash-settled to equity-settled. This standard is effective for reporting periods beginning on or after January 1, 2018.

- **IFRS 16** *Leases* - This standard was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments at March 31, 2017 and December 31, 2016 consist of the following:

	March 31, 2017 $	December 31, 2016 $
Financial assets		
Cash and cash equivalents	4,059,367	473,242
Amounts receivable	220,911	190,114
Financial Liabilities		
Accounts payable and accrued liabilities	657,143	744,411

The Company has designated its cash and cash equivalents 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.

[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 and cash equivalents 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 or cashable guaranteed investments ("**GIC**") invested only in Canadian Chartered Banks, and government guaranteed securities with maturities of one year or less. The Company did not have cashable GIC at March 31, 2017 or December 31, 2016. Amounts receivable consist of goods and services tax due from the Government of Canada, service fees owed from a collaborative partner and sublease rent owed from sub-tenants.

[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, 2017, the Company had working capital of $3,741,065 (December 31, 2016 - $59,142).

[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 March 31, 2017 and December 31, 2016, 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 U.S. 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 U.S. dollar could have an effect on the Company's results of operations, financial position or cash flows.

As at March 31, 2017 and December 31, 2016, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2017 US$	**December 31, 2016 US$**
Cash and cash equivalents	2,100	2,145
Accounts payable and accrued liabilities	(134,708)	(52,844)
Total	**(132,608)**	**(50,699)**

Based on the above net exposure as at March 31, 2017, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $6,630 (December 31, 2016 - $2,535) in the Company's net loss and comprehensive loss.

[d] Additional risk factors

Current and prospective shareholders should specifically consider various factors, including the risks outlined below and under the heading "*Risk Factors*" in the Company's 2016 AIF filed on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties, including the risks listed below, 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.

Volatility of Market Price

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can

be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

Positive Return in an Investment in the Common Shares of the Company is Not Guaranteed

There is no guarantee that an investment in the Company will earn any positive return in the short term or long term. A purchase of the shares involves a high degree of risk and should be undertaken only by purchasers whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the Common Shares is appropriate only for purchasers who have the capacity to absorb a loss of some or all of their investment.

Dilution

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares and Class A preferred shares. The Company's shareholders do not have pre-emptive rights in connection with any future issuances of securities by the Company. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of stock options under the Company's stock option plan and upon the exercise of outstanding warrants.

Negative Cash Flow from Operations

During the fiscal year ended December 31, 2016 and 2015, the Company had negative cash flows from operating activities. To the extent that the Company has negative cash flow in any future period, certain of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities.

Development Costs and Timing

Aequus may be unable to initiate or complete development of its product candidates on Aequus' currently expected timeline, or at all. The timing for the completion of the studies for Aequus' product candidates will require funding beyond the Company's existing cash and cash equivalents. In addition, if regulatory authorities require additional time or studies to assess the safety or efficacy of a product candidate, Aequus may not have or be able to obtain adequate funding to complete the necessary steps for approval for Topiramate XR, Oxcarbazepine XR or its product candidates. Additional delays may result if the FDA or other regulatory authority recommends non-approval or restrictions on approval. Studies required to demonstrate the safety and efficacy of Aequus' product candidates are time consuming, expensive and together take several years or more to complete. In addition, approval policies, regulations or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. Aequus has not obtained regulatory approval for any product candidate and it is possible that none of its existing product candidates or any product candidates it may seek to develop in the future will ever obtain regulatory approval. Delays in regulatory approvals or rejections of applications for regulatory approval in Canada, the United States, Europe, Japan or other markets may result from a number of factors, many of which are outside of Aequus' control.

The lengthy and unpredictable approval process, as well as the unpredictability of future clinical trial results, may result in Aequus' failure to obtain regulatory approval to market any of its product candidates, which would significantly harm Aequus' business, results of operations and prospects.

Commercial Platform Development

Aequus has been building a commercial platform since the Company's acquisition of TeOra in July 2015. The cost of establishing and maintaining that infrastructure may exceed the cost effectiveness of doing so. In order to market any products, Aequus must maintain, and may further expand, its sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. If Aequus does not have adequate sales, marketing and distribution capabilities, whether independently or with third parties, Aequus may not be able to generate sufficient product revenue and promotional service revenue to become profitable. Aequus competes with many companies that have extensive and well-funded sales and marketing operations. Without an internal commercial organization or the support of a third party to perform sales and marketing functions, Aequus may be unable to compete successfully against these more established companies. Furthermore, Aequus' relationships with its third party suppliers are subject to various risks and uncertainties that are outside of its control, including agreements with third party suppliers not being renewed or being terminated in accordance with their terms and supply and reputational risks in the event that a third party supplier is in default under the provisions of such agreement.

The Company has been named as a respondent in an application for judicial review filed April 25, 2017, regarding the decision of the Minister of Health to designate ^{PR}Vistitan™ as being interchangeable with Lumigan RC on Alberta's drug benefit list. The Company does not anticipate this claim to have a material impact over its financial statements or operations in any way.

Change in Laws, Regulations, and Guidelines Relating to Marijuana and Related Issues

The Company's operations are subject to a variety laws, regulations and guidelines including relating to the manufacture, management, transportation, storage, and disposal of medical marijuana as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Approval policies, laws, regulations and guidelines may change during the course of a product candidate's clinical development and may vary among jurisdictions. Any delays in obtaining, or failure to obtain regulatory approvals, including at the pre-clinical, clinical or marketing stage, would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Dependence on Key Personnel

The Company strongly depends on the business and technical expertise of its management and it is unlikely that this dependence will decrease in the near term. Loss of the Company's key personnel could slow the Company's ability to innovate, although the effect on ongoing operations would be manageable as experienced key operations personnel could be put in place. As the Company's operations expand, additional general management resources will be required.

If the Company expands its operations, the ability of the Company to recruit, train, integrate and manage a large number of new employees is uncertain and failure to do so would have a negative impact on the Company's business plans.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers, or may be associated with other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the *Business Corporations Act* (British Columbia) (the "**BCBCA**") in dealing with conflicts

of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the BCBCA. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

Intellectual Property

Our success depends on our ability to protect our proprietary rights and operate without infringing the proprietary rights of others; we may incur significant expenses or be prevented from developing and/or commercializing products as a result of an intellectual property infringement claim.

Our success will depend in part on our ability and that of our corporate collaborators to obtain and enforce patents and maintain trade secrets, both in the United States and in other countries.

The patent positions of biotechnology and biopharmaceutical companies, including us, is highly uncertain and involves complex legal and technical questions for which legal principles are not firmly established. The degree of future protection for our proprietary rights, therefore, is highly uncertain. In this regard there can be no assurance that patents will issue from any of the pending patent applications. In addition, there may be issued patents and pending applications owned by others directed to technologies relevant to our or our corporate collaborators' research, development and commercialization efforts. There can be no assurance that our or our corporate collaborators' technology can be developed and commercialized without a license to such patents or that such patent applications will not be granted priority over patent applications filed by us or one of our corporate collaborators.

Our commercial success depends significantly on our ability to operate without infringing the patents and proprietary rights of third parties, and there can be no assurance that our and our corporate collaborators' technologies and products do not or will not infringe the patents or proprietary rights of others.

There can be no assurance that third parties will not independently develop similar or alternative technologies to ours, duplicate any of our technologies or the technologies of our corporate collaborators or our licensors, or design around the patented technologies developed by us, our corporate collaborators or our licensors. The occurrence of any of these events would have a material adverse effect on our business, financial condition and results of operations.

Litigation may also be necessary to enforce patents issued or licensed to us or our corporate collaborators or to determine the scope and validity of a third party's proprietary rights. We could incur substantial costs if litigation is required to defend ourselves in patent suits brought by third parties, if we participate in patent suits brought against or initiated by our corporate collaborators or if we initiate such suits, and there can be no assurance that funds or resources would be available in the event of any such litigation. An adverse outcome in litigation or an interference to determine priority or other proceeding in a court or patent office could subject us to significant liabilities, require disputed rights to be licensed from other parties or require us or our corporate collaborators to cease using certain technology or products, any of which may have a material adverse effect on our business, financial condition and results of operations.

ADDITIONAL INFORMATION

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