MANAGEMENT'S DISCUSSION AND ANALYSIS
As of November 29, 2017

For the three and nine months ended September 30, 2017

This management discussion and analysis ("**MD&A**") of Aequus Pharmaceuticals Inc. (the "**Company**" or "**Aequus**") is for the three and nine months ended September 30, 2017, and is performed by management using information available as of November 29, 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 and nine months ended September 30, 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 obtain funding for our operations, including funding for research and commercial activities;*
- *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;*
- *the intention to complete additional clinical trials for our transdermal aripiprazole patch (AQS1301) and the timing of the results thereof;*
- *the Company's development of its cannabinoid programs (AQS1304);*
- *our expected use of proceeds from the 2017 Offering (as defined below);*
- *the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;*
- *our business model and strategic plans;*
- *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 for our product candidates;*
- *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, and capital requirements*

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.

Our development pipeline is focused on advancing products in specialty therapeutic areas with a goal of 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 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 commercial infrastructure is Canadian-based, with specialty sales representatives currently promoting two specialty medicines to secondary care physicians. 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 promotional partnership agreements, 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 is a revenue-generating, fully integrated specialty pharmaceutical company with development stage products and commercial activities in Canada. Aequus looks to leverage its core capabilities, commercial infrastructure and existing product portfolio to continue on the Company's current growth trajectory. The Company's near-term growth strategy includes the following key components:

- Advance 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 the Company's commercial platform, including leveraging its specialty sales force in Canada to enable Aequus to continue to in-license and sell high value branded products in Canada.

Over the past 15 months, Aequus has in-licensed two products, launched promotional activities for two third party products in the Canadian market, entered into an additional commercial collaboration for the promotion of an ophthalmology product in Canada, and supported the advancement of its internal programs. These activities support the key areas of Aequus' growth strategy.

THIRD QUARTER 2017 HIGHLIGHTS

- Advanced the long-acting transdermal doxylamine/pyridoxine combination patch program, AQS1303, for the treatment of nausea and vomiting in pregnancy through an initial proof of concept clinical study that was initiated in July 2017. Results from this study suggested that sustained delivery of therapeutics levels of the active ingredients through the skin over a multi-day period is possible with the current formulation. The formulation was well tolerated with no serious adverse events reported.

- Received positive feedback from the US Food and Drug Administration ("FDA") in a pre-Investigational Drug Application ("pre-IND") meeting for the Company's lead development program, AQS1301, a once-weekly transdermal formulation of aripiprazole. Upon review of the Company's pre-IND submission, the FDA agreed that AQS1301 is a suitable candidate for the 505(b)2 abbreviated regulatory pathway for approval in the United States. Aequus has also since expanded the patent portfolio for this program with a patent granted in China which adds to the previously issued/allowed countries or regions namely the United States, Russia, Mexico, Japan, Australia and Canada with several other major markets pending.

- In connection with the Company's previously announced medical cannabis program, Aequus formed a collaboration with Scientus Pharma, Inc. ("Scientus") to be the development and commercial supplier of specific cannabinoid extracts, with an option for Scientus to co-fund the development of a cannabinoid containing transdermal formulation that would be designed and optimized to address certain neurological disorders. Additionally, the Company entered into a collaboration with Ehave, Inc. ("Ehave") to access Ehave's bioinformatics platform, providing cost effective and clinically relevant data collection in Aequus' anticipated clinical trials in the medical cannabis regulatory regime.

- The Company continued to grow revenues from its Canadian commercial arm through the on-going promotion of PRVistitan™, a treatment for the reduction of elevated intraocular pressure in patients with open angle glaucoma or ocular hypertension, as well as the first to market generic form of tacrolimus IR for the treatment and prevention of acute rejection following organ transplantation.

KEY PARTNERSHIPS

SANDOZ CANADA, INC.

In October, 2015, Aequus became the exclusive promotional and marketing partner for the first to market generic form of tacrolimus IR. This product had already been approved by Health Canada. Aequus began promoting tacrolimus IR for the treatment and prevention of acute rejection following organ transplantation in December, 2015.

In April 2016, Aequus launched promotional efforts in Canada for PRVistitan™, a treatment for the reduction of elevated intraocular pressure in patients with open angle glaucoma or ocular hypertension. Aequus obtained multiple provincial formulary listings within the first six months of Vistitan's launch, including a Limited-Use drug designation on the Ontario Drug Benefit Plan.

SUPERNUS PHARMACEUTICALS, INC.

In February 2016, Aequus entered into an agreement with Supernus which was amended on June 15, 2016 for certain licensing fees ("**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 2018.

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.

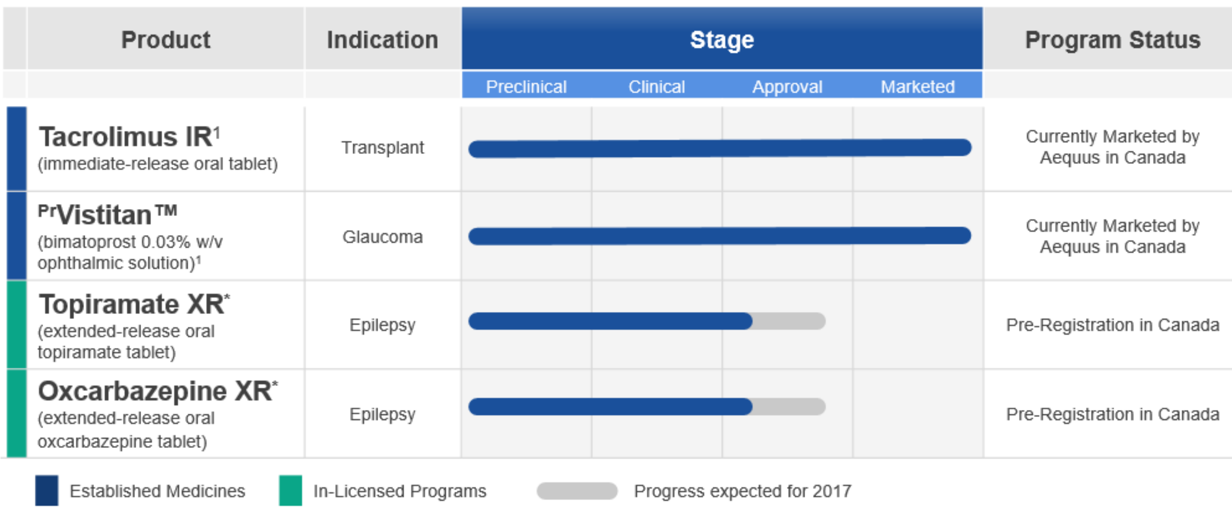
The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Topiramate XR and Oxcarbazepine XR include: (i) improved patient adherence with a once-daily dosing regimen, making it more probable that patients maintain sufficient level of medication in their bloodstream to 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.

SANTEN PHARMACEUTICAL CO., LTD.

In June 2017, Aequus entered into a commercial collaboration with Santen Pharmaceutical Co., Ltd. (“**Santen**”) to become its exclusive promotional and marketing partner for an ophthalmology product in Canada, which is currently under review by Health Canada for marketing approval.

Under the terms of this agreement, Aequus and Santen will share the strategic responsibility associated with promotional activities for a currently undisclosed ophthalmic product in Canada. Santen will be responsible for product manufacturing and distribution, while Aequus will be mainly responsible for the field activities. Net product revenues will be split between Aequus and Santen over a ten-year term. The agreement also contemplates break fees to Aequus in the event of Santen internalizing the asset prior to the end of the term.

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

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 and only currently available generic version of Prograf®.

In 2015, the immunosuppressive market in Canada reached $241M in sales, with tacrolimus products accounting for $100M. Since the initiation of Aequus’ promotional efforts, the generic version of the most commonly used dose of tacrolimus IR (1mg) has experienced growth of 153% to date and continues to gain market share from branded tacrolimus alternatives.

PRVISTITAN™ (bimatoprost 0.03%, ophthalmic solution)

The second product promoted by Aequus' salesforce is a branded ophthalmology product, PRVistitan™ (bimatoprost 0.03%, ophthalmic solution), obtained through the acquisition of Aequus Pharma (Canada) Ltd., formerly 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 for this indication. Since its launch, and with the support of Aequus' promotional efforts, Vistitan™ has been successfully listed among 90% of private payor groups as well as a benefit under key provincial formularies, including the Ontario Drug Benefit Plan, Alberta Health and Manitoba Health.

PRODUCT DEVELOPMENT PIPELINE

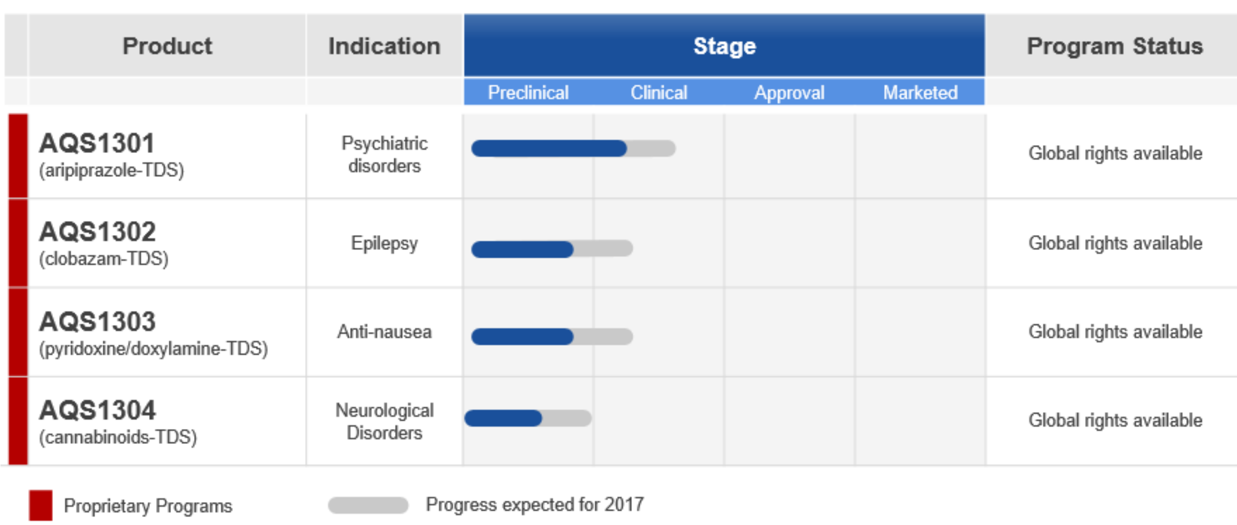


Figure 2. Aequus' Development Pipeline

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;
- FDA pre-IND meeting feedback confirmed regulatory path forward 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 2017, 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®.

Following a pre-IND meeting with the FDA in August 2017, the FDA agreed that AQS1301 is a suitable candidate for the 505(b)2 regulatory pathway for approval in the United States. A Section 505(b)(2) NDA allows 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 has expanded its patent portfolio for AQS1301 to include China, 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 anticipates advancing the program with the intention of gaining approval via the Section 505(b)(2) accelerated regulatory 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 2018. 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;
- Initial Proof of Concept clinical study successfully completed in healthy volunteers;
- FDA pre-IND meeting anticipated in early 2018 to confirm 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 completed a Proof of Concept clinical study in September 2017 with results suggesting that sustained delivery of therapeutics levels of the active ingredients through the skin over a multi-day period is possible with the current formulation. The formulation was well tolerated with no serious adverse events reported.

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.

AQS1304 - Medical cannabis program

Aequus has initiated a research program of cannabinoid-based therapeutics targeting neurological disorders. In 2016, Health Canada provided patients in Canada the ability to access cannabis for medical purposes when recommended by their physician. There are insufficient data, however, for proper therapeutic treatment protocols regarding the proper dosage and frequency for patients dealing with a wide variety of symptoms and disease areas. Aequus recently published a survey that confirms the medical need for improved clinical trial data supporting safety and efficacy of medical cannabis, reliability of dose delivery systems, high quality data collection tracking real world clinical outcomes, physician education, and quality controlled ingredients.

Aequus has formed the following collaborations and steps forward in connection with this program:

- In March 2017, Aequus acquired an exclusive world-wide license to a transdermal patch formulation containing cannabinoids for use in the treatment of epilepsy, Multiple Sclerosis and certain other neurological disorders from TRPL;
- In May 2017, Aequus completed a needs assessment study with over four hundred physicians to validate and select a medical cannabis target product profile that is best suited for the needs of patients;
- In June 2017, Aequus and CDRD entered into a broad research collaboration to establish pre-clinical safety and efficacy of select cannabinoid-based therapeutics targeting certain neurological movement disorders;
- In August 2017, Aequus formed a collaboration with Scientus Pharma, Inc. (“Scientus”) to be the development and commercial supplier of specific cannabinoid extracts, with an option for Scientus to co-fund the development of a cannabinoid containing transdermal formulation that would be designed and optimized to address certain neurological disorders;

- In August 2017, Aequus entered into a collaboration with Ehave, Inc. (“Ehave”) to access Ehave’s bioinformatics platform, providing cost effective and clinically relevant data collection in Aequus’ anticipated clinical trials in the medical cannabis regulatory regime.

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 advance 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 North America, particularly for AQS1301 and AQS1303 following the successful completion of Proof of Concept clinical studies for each in 2017.

OVERALL PERFORMANCE

The Company 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 continues to build its commercial platform and invests in the product advancement of AQS1301, AQS1302, AQS1303 and its recently announced potential program in medical cannabis. Since its inception, Aequus has accumulated a deficit of $17,105,592 as at September 30, 2017.

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 $950,962 ($0.01 per Common Share) in the three months ended September 30, 2017 (“**Q3 2017**”) and $1,089,532 ($0.02 per Common Share) in the three months ended September 30, 2016 (“**Q3 2016**”). The $138,570 or 13% decrease in net loss was primarily due to continued efforts to decrease general administration and sales and marketing spending throughout the reporting period. The decrease was offset by increased research and development activity.

On a year to date basis, net loss for the nine months ended September 30, 2017 (“**YTD 2017**”) was $3,241,657 ($0.05 per common share) as compared to $3,643,362 ($0.08 per common share) for the same period in the preceding year (“**YTD 2016**”). The decrease of 11% in net loss was primarily due to the Company’s growth of revenue and other income.

The Company incurred $163,703 and $81,056 less in operating expenditures in Q3 and YTD 2017 compared to Q3 and YTD 2016 as the Company increased spending on its development programs and reduced marketing and administration related costs.

The following table provides an overview of the financial results in Q3 2017 as compared to those in Q3 2016 and YTD 2017 as compared to YTD 2016:

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Revenue	$ 291,154	$ 300,549	$ (9,395)	$ 770,742	$ 534,732	$ 236,010
Operating expenditures:						
Research and development	415,173	371,824	43,349	1,395,116	832,665	562,451
Sales and marketing	310,163	346,026	(35,863)	1,019,253	1,347,601	(328,348)
General administrations	532,085	703,274	(171,189)	1,715,041	2,030,200	(315,159)
	1,257,421	1,421,124	(163,703)	4,129,410	4,210,466	(81,056)
Loss before other income (loss)	(966,267)	(1,120,575)	(154,308)	(3,358,668)	(3,675,734)	(317,066)
Other income (loss)	15,305	31,043	(15,738)	117,011	32,372	84,639
Net loss	**$(950,962)**	**$(1,089,532)**	**$ (138,570)**	**$(3,241,657)**	**$(3,643,362)**	**$ (401,705)**

Revenues

Revenue for the three months ended September 30, 2017 was $291,540 (2016 - $300,549) the $9,395 (3%) change is believed to be attributable to timing issues for the sales. Revenue during the nine months ended September 30, 2017 was $770,742 (2016 - $534,732). The $236,010 increase in revenues is primarily attributable the timing of the product launches as well as increased promotional activities. Vistitan™ , which launched in April 2016, had a full nine months of sales for the period ending September 30, 2017 whereas there were only six months of sales in the same reporting period last year. Sales levels are expected to be inconsistent and unpredictable over the next twelve months as reimbursement activities and inventory stock-up continue to occur 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 (“R&D”) expenses of $415,173 in Q3 2017 as compared to $371,824 in Q3 2016. On a year-to-date basis, R&D expenses were $1,395,116 YTD 2017 as compared to $832,665 YTD 2016. The increase for both periods was primarily attributable to regulatory consulting and AQS1301 Pre-IND related work, the development of clinical trial materials and the initiation and completion of the Proof of Concept study for AQS1303. R&D expenditures in Q3 2016 and YTD 2016 were lower as the Company completed the initial single dose exposure Proof of Concept study for AQS1301 in February 2016 and concluded preclinical studies for AQS1302 and AQS1303.

The following table summarizes the Company’s research and development expenditures in Q3 2017 as compared to those in Q3 2016 and YTD 2017 as compared to those in YTD 2016:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Consulting and management	$60,108	$175,496	$115,388	$347,938	$297,145	$50,793
Office and other	—	—	—	—	218	(218)
Patent and intellectual property protection	15,674	59,798	(44,124)	70,630	131,841	(61,211)
Salaries and wages	2,087	3,029	(942)	6,324	10,769	(4,445)
Share-based payments	3,297	8,512	(5,215)	16,305	37,836	(21,531)
Subcontractor costs	328,383	124,989	203,394	944,729	352,371	592,358
Travel and accommodation	5,624	—	5,624	9,190	2,485	6,705
	$415,173	**$371,824**	**$43,349**	**$1,395,116**	**$832,665**	**$562,451**

Sales and Marketing Expenses

Aequus incurred sales and marketing ("S&M") expenses of $310,163 in Q3 2017 as compared to $346,026 in Q3 2016, a decrease of $35,863. On a year-to-date basis, S&M expenses were $1,019,253 YTD 2017 as compared to $1,347,601 during YTD 2016, a decrease of $328,348. During YTD 2016 the Company incurred relatively high promotional spending associated with launch activities for Tacrolimus IR and ^{PR}Vistitan™ in Canada whereas there were no such start-up costs this year in YTD 2017.

The changes in sales and marketing expenditures in Q3 2017 compared to Q3 2016 and YTD 2017 compared to YTD 2016 were primarily impacted by the following items:

- Consulting and management fees decreased by $59,868 in Q3 2017 compared to Q3 2016 and decreased by $180,202 in YTD 2017 compared to YTD 2016. The Company had start-up costs associated with the launch activities related to ^{PR}Vistitan™ and Tacrolimus IR in 2016. The Company also incurred a one-time market access costs in YTD 2016 where there were no launch or equivalent one-time market access costs in YTD 2017.
- Share-based payments expense is recognized when stock options vest for the management team of TeOra. During the YTD 2017 there were fewer options that vested, relative to YTD 2016.
- Subcontract costs for salesforce covering promotional and marketing activities for Tacrolimus IR and ^{PR}Vistitan™ in different regions in Canada was $169,472 in Q3 2017 and $79,066 in Q3 2016 and $458,679 and $379,343 for YTD 2017 and 2016, respectively. The Q3 2016 and YTD 2016 were lower than the current year because of a one-time $115,437 rebate that was negotiated with the subcontractor during the periods ended September 30, 2016.
- Advertising and promotion, printing costs, salaries and wages, as well as travel and accommodation decreased by $58,011 in Q3 2017 compared to Q3 2016 and decreased by $139,725 in YTD 2017 compared to YTD 2016. The Company increased spending on pharmacy sales data to support commercial activities and decreased certain promotional activities associated with the launch of Tacrolimus IR and ^{PR}Vistitan™ in 2016.

The following table summarizes the Company's sales and marketing expenditures in Q3 2017 as compared to Q3 2016 and YTD 2017 as compared to YTD 2016:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change
Advertising and promotion	$ 385	$ 58,708	$ (58,323)	$ 14,725	$ 129,849	$ (115,124)
Consulting and management	30,615	90,483	(59,868)	137,465	317,667	(180,202)
Depreciation and amortization	45,918	42,398	3,520	137,751	127,192	10,559
Printing and other expense	9,304	97	9,207	43,938	24,119	19,819
Salaries and wages	10,442	21,049	(10,607)	31,624	59,721	(28,097)
Share-based payments	15,053	26,963	(11,910)	64,191	162,507	(98,316)
Subcontract salesforce	169,472	79,066	90,406	458,679	379,343	79,336
Travel and accommodation	28,974	27,262	1,712	130,880	147,203	(16,323)
	$310,163	**$346,026**	**$(35,863)**	**$1,019,253**	**$1,347,601**	**$(328,348)**

General Administration Expenses

General administration ("G&A") expenses were $532,085 in Q3 2017 as compared to $703,274 in Q3 2016, a decrease of $171,189 or 24%. On a year-to-date basis, G&A expenses were $1,715,041 during YTD 2017 as compared to $2,030,200 in YTD 2016, a decrease of $315,159 or 16%. The decrease in G&A expenses was primarily due to a decrease in management fees, regulatory consultant spending and share-based payments expense. The changes in general administration expenditures were primarily impacted by the following items:

- Consulting and management fees decreased by $181,210 in comparing YTD as the Company saw lower fees paid to the Chief Executive Officer and Chief Operating Officer and reduced business development related consulting expense.
- Legal and professional fees decreased by $31,013 in Q3 2017 and $6,313 in YTD 2017 in comparison to the comparative periods due to variations in business development activities.
- Share-based payments decreased by $71,317 comparing Q3 2017 and Q3 2016 and decreased by $215,308 comparing YTD 2017 and YTD 2016. This was due to options granted fully vesting in the preceding year and where no new options were granted in Q3 2017 and YTD 2017.
- Travel and accommodation costs increased by $9,551 and $56,195 when comparing the quarters and YTD, respectively, due to increased business development activity and investor tradeshows.

The following table summarizes the Company's general administration expenditures in Q3 2017 as compared to Q3 2016 and YTD 2017 as compared to YTD 2016:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change
Consulting and management	$244,919	$324,582	$(79,663)	$785,584	$ 966,794	$(181,210)
Legal and professional	86,449	117,462	(31,013)	242,543	248,856	(6,313)
Other general administration	87,713	96,716	(9,003)	281,168	257,984	23,184
Regulatory and listing	32,082	17,625	14,457	65,441	51,897	13,544
Salaries and benefits	7,918	12,119	(4,201)	44,560	49,811	(5,251)
Share-based payments	34,659	105,976	(71,317)	134,430	349,738	(215,308)
Travel and accommodation	38,345	28,794	9,551	161,315	105,120	56,195
	$532,085	**$703,274**	**$(171,189)**	**$1,715,041**	**$2,030,200**	**$(315,159)**

Operating lease commitment

On April 9, 2015, the Company entered into a sublease agreement for its Vancouver head office premise expiring on November 30, 2018 and paid a security deposit of $62,192. Pursuant to this agreement, the Company is obligated to pay basic rent of $8,893 and operating costs, currently estimated at $6,655, on a monthly basis starting June 1, 2015. The Company has entered into sublease agreements of the space providing monthly rental revenue of $5,700 to offset rent expense.

During the nine months ended September 30, 2017, the Company renewed the lease for five years ending November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of $11,635 in and operating costs, currently estimated at $7,230, on a monthly basis starting December 1, 2018. The basic rent commitment per year is as follows:

2019 – $139,600
2020 – $143,500
2021 – $147,200
2022 – $150,900
2023 – $154,600

Use of Proceeds from Financing

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)**	**Estimated Actual Use of Proceeds**
AQS1301 Phase 1b Proof of concept clinical study	$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 (Phase 1b) 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 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 and early 2018. 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.

On March 13, 2017, the Company closed an agreement with Canaccord Genuity Corp. (“Canaccord")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. The 17,250,000 units include 2,250,000 units issued and sold pursuant to the over-allotment option granted by the Company to Canaccord. 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	**Estimated YTD and Unaudited Actual Use of Proceeds to Date**
Development program spending for AQS1302, AQS1303 and cannabinoid related program	$2,150,000	$643,500
Regulatory and intellectual property consulting for the Company’s internal programs	$350,000	$248,000
Sales and marketing, business development, general administration and working capital	$2,152,750	$1,974,000[(2)]
Total	**$4,652,750[(1)]**	**$2,865,500[(3)]**

Notes:

(1) The prospectus supplement dated March 6, 2017 discloses a total use of proceeds of $4,025,000, after deducting the Underwriter’s fee and estimated expenses of the 2017 Offering, which assumed no exercise of the over-allotment option. The over-allotment option was fully exercised and as a result, the estimated net proceeds received from the 2017 Offering was $4,625,750 after deducting the Underwriter’s fee and estimated expenses of the 2017 Offering.

(2) This item is higher than expected due to the Company having a higher actual working capital deficit than was estimated at the time of filing of the March Prospectus. This amount does not take into account cash from revenues earned and expenditures incurred but not yet paid for the period from April 1, 2017 to September 30, 2017. Actual sales were lower than anticipated in the nine months ended September 30, 2017.

(3) Actual costs of the 2017 Offering, including the Underwriter’s fee and other expenses relating to the 2017 Offering, were $622,905 versus the estimate of $522,250 due to increased legal fees.

The majority of development program spending on since March 2017 related to the proof of concept study for AQS1303.

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			
	September 30, 2017	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**
	(“Q3 2017”)	**(“Q2 2017”)**	**(“Q1 2017”)**	**(“Q4 2016”)**
Revenue	$ 291,154	$ 186,586	$ 293,002	$ 166,901
Research and development expenditures	415,173	581,670	398,273	295,115
Sales and marketing expenditures	310,163	359,945	345,625	419,763
General administration expenditures	532,085	623,317	563,159	639,872
Other income	15,305	101,084	622	19,156
Net loss for the period	(950,962)	(1,277,262)	(1,013,433)	(1,168,693)
Basic and diluted loss per common share	(0.01)	(0.02)	(0.01)	(0.02)

	Quarter Ended			
	September 30, 2016	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**
	(“Q3 2016”)	**(“Q2 2016”)**	**(“Q1 2016”)**	**(“Q4 2015”)**
Revenue	$ 300,549	$ 118,100	$ 116,083	$ —
Research and development expenditures	371,824	291,748	169,093	454,557
Sales and marketing expenditures	346,026	557,712	443,863	555,177
General administration expenditures	703,274	656,486	670,440	363,918
Other income (loss)	31,043	(1,319)	2,648	(4,925)
Net loss for the period	(1,089,532)	(1,389,165)	(1,164,665)	(1,378,577)
Basic and diluted loss per common share	(0.02)	(0.03)	(0.03)	(0.04)

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, PRVistitanTM, which launched in April 2016.

- 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, followed by a second, follow-on study which started in Q4 2016 and completed in Q1 2017. Furthermore, the development of clinical trial materials and the initiation and completion of the Proof of Concept clinical study for AQS1303 in Q2 and Q3 2017, the preparations for the AQS1301 Pre-IND meeting in Q1 and Q2 2017 as well as physician surveys carried out in Q2 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 PRVistitanTM in Canada. Spending has stabilized as the commercial division continues to mature beginning Q3 2016 and onwards.

- 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 in Q3 2015 and (iv) signing of a Canadian commercial license with Supernus for Topiramate XR and Oxcarbazepine XR 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 included the receipt of a government research grant in Q2 2017.

Sources and Uses of Cash

	YTD 2017 **$**	**YTD 2016** **$**
Cash used in operating activities	(3,116,207)	(3,797,967)
Cash used in investing activities	(48,883)	(478,940)
Cash provided by financing activities	4,552,095	4,305,351
Net (decrease) increase in cash and cash equivalents	1,387,005	28,444
Cash balance at end of period	1,860,247	473,242

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 $3,116,207 in YTD 2017 from $3,797,967 in YTD 2016. This decrease of $681,760 is primarily due to less of a negative change in non-cash working capital. In YTD 2017, non-cash working capital change was $294,603 compared to negative non-cash working capital change of $834,018 in YTD 2016 which was primarily attributable to the payment of accounts payable items and the increase of accounts receivable.

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

Cash provided by financing activities increased by $246,744 in YTD 2017 as compared to the amount reported in YTD 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 November 29, 2017, there were no Class A Preferred shares without par value in the capital of the Company ("**Class A Preferred Shares**") issued and outstanding, 71,351,138 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	Number Outstanding as of November 29, 2017	Number Outstanding as of September 30, 2017
Common Shares issued and outstanding	71,351,138	71,351,138
Class A Preferred Shares	Nil	Nil
Options(2)	5,175,337	5,175,337
Warrants(1)	8,625,000	8,625,000
Broker Warrants(3)	862,500	986,250

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) Of the 5,175,337 options outstanding, 4,680,337 are vested and exercisable at a weighted average price of $0.39 per Common Share. The remaining 495,000 options are not vested and have a weighted average price of $0.46 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. These warrants expired unexercised. 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.

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:

	Three Months Ended September 30, 2017 $	Three Months Ended September 30, 2016 $	Nine Months Ended September 30, 2017 $	Nine Months Ended September 30, 2016 $
Sub-contract research and licensing fees [i]	154,426	124,989	154,426	401,900
Management fees [ii]	82,500	111,000	276,000	373,000
Consulting fees [iii] [iv] [v]	77,392	105,973	243,555	298,622
	314,318	**341,962**	**673,981**	**1,073,522**

[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 $401,900 during the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, the Company included in its accounts payable and accrued liabilities $Nil (December 31, 2016 – $25,000) due to TRPL.

During the nine months ended September 30, 2017, the Company incurred $154,426 (US$119,000) (2016 - $Nil) in subcontract research expenses from Dr. Fotios Plakogiannis and to Alpha to Omega Consultants Inc., a company controlled by Dr. Fotious Plakogiannis.

As of September 30, 2017, the Company included in its accounts payable and accrued liabilities $69,888 (US$56,000) (December 31, 2016 - $Nil) due to Dr. Fotios Plakogiannis which expected to be paid in shares.

[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. Stevens' time involvement in the respective activities. The Northview Agreement expired on November 30, 2016. During the nine months ended September 30, 2017, Northview did not charge any fees as Mr. Janzen and Ms. Stevens entered into individual consulting agreements with the Company. During the nine months ended September 30, 2016, Northview charged total management fees of $373,000 for services provided by Mr. Janzen, Ms. Stevens and other Northview employees, including a bonus of $50,000 for completing a financing milestone.

As of September 30, 2017, the Company included in its accounts payable $Nil (December 31, 2016 – $50,115) due to Northview and included in its accounts receivable $12,293 due from 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 nine months ended September 30, 2017, NVI received $165,000 in compensation (2016 - $Nil).

As of September 30, 2017, the Company included in its accounts payable and accrued liabilities

$27,398 (December 31, 2016 – $26,250) due to NVI and Doug Janzen.

[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 nine months ended September 30, 2017, Crecera received $111,000 (2016 - $Nil) in compensation.

As of September 30, 2017, the Company included in its accounts payable and accrued liabilities $13,125 (December 31, 2016 – $12,600) due to Crecera.

[v] On December 1, 2014, the Company entered into a consulting agreement with KeenVision Consulting Inc. ("**KeenVision**") and Christina Yip (the "**KeenVision Agreement**"). Ms. Yip served as the Acting Chief Financial Officer of the Company. KeenVision was compensated at a monthly rate of $8,000 and entitled to incentive bonuses upon the satisfaction of specified milestones. During the nine months ended September 30, 2017, KeenVision received total consulting fees of $Nil. During the nine months ended September 30, 2016, KeenVision received total consulting fees of $72,000 including a bonus of $10,000 for completing a financing milestone. The KeenVision Agreement was terminated on July 17, 2016 in connection with Christina Yip's resignation as the Company's Chief Financial Officer.

[vi] 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 nine months ended September 30, 2017, Mr. Ball charged total consulting fees of $108,000 (2016 - $108,000).

As of September 30, 2017, the Company has included in its accounts payable and accrued liabilities $21,702 (December 31, 2016 - $16,864) due to Mr. Ball.

[vii] 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 nine months ended September 30, 2017, Dr. McAfee charged total consulting fees of $61,230 (2016 - $84,669).

As of September 30, 2017, the Company has included in its accounts payable and accrued liabilities $10,920 (December 31, 2016 - $6,307) due to Dr. McAfee.

[viii] 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 nine months ended September 30, 2017, Fehr & Associates charged total consulting fees of $74,325 (2016 - $33,953) for CFO and accounting services.

As of September 30, 2017, the Company has included in its accounts payable and accrued liabilities $15,991 (December 31, 2016 - $5,481) due to Fehr & Associates.

[b] Key management compensation

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

	Three Months Ended September 30, 2017 $	**Three Months Ended September 30, 2016 $**	**Nine Months Ended September 30, 2017 $**	**Nine Months Ended September 30, 2016 $**
Management fees, General & administration	61,875	83,250	207,000	279,750
Management fees, Research & development	20,625	27,750	69,000	93,250
Consulting fees, General & administration	32,675	60,553	112,125	143,753
Consulting fees, Research & development	21,317	22,020	61,230	84,669
Consulting fees, Sales & marketing	23,400	23,400	70,200	70,200
Share-based payments, General & administration	8,484	38,606	39,709	139,425
Share-based payments, Research & development	1,455	4,026	6,424	15,038
Share-based payments, Sales & marketing	9,415	3,884	45,887	15,243
	179,246	**263,488**	**611,575**	**841,328**

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 September 30, 2017 and December 31, 2016 consist of the following:

	September 30, 2017 $	**December 31, 2016 $**
Financial assets		
Cash and cash equivalents	1,860,247	473,242
Amounts receivable	327,980	190,114
Financial Liabilities		
Accounts payable and accrued liabilities	555,844	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 had $1,823,000 cashable GIC at September 30, 2017. 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 September 30, 2017, the Company had working capital of $1,782,985 (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 September 30, 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 September30, 2017 and December 31, 2016, the Company had the following assets and liabilities denominated in U.S. dollars:

	September 30, 2017 US$	**December 31, 2016 US$**
Cash and cash equivalents	134	2,145
Accounts payable and accrued liabilities	(105,626)	(52,844)
Total	**(105,492)**	**(50,699)**

Based on the above net exposure as at September 30, 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 $5,275 (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 annual information form 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, the net proceeds from future financings 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 PRVistitan™ as being interchangeable with Lumigan RC on Alberta's drug benefit list. During the nine months ended September 30, 2017, the Company has been removed as a respondent and is no longer named in the application. 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.