Aequus Pharmaceuticals Inc.
Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian dollars)

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian dollars)

	Note	March 31, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS			
Current			
Cash and cash equivalents		$ 842,299	$ 1,164,518
Amounts receivable		398,793	430,064
Prepaid expenses and deposit		108,529	120,401
		1,349,621	1,714,983
Property and equipment	5	30,920	34,975
Intangible assets	6	860,516	902,913
Deferred share-based payments	7	10,481	18,978
		901,917	956,866
Total assets		$ 2,251,538	$ 2,671,849
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	396,893	366,836
Total liabilities		396,893	366,836
SHAREHOLDERS' EQUITY			
Share capital	8	17,398,685	17,095,063
Contributed surplus		3,018,807	2,956,312
Deficit		(18,562,847)	(17,746,362)
Total shareholders' equity		1,854,645	2,305,013
Total liabilities and shareholders' equity		$ 2,251,538	$ 2,671,849

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

Nature of operations and Going Concern [Note 1]
Commitments and Contingencies [Note 10]
Subsequent Events [Note 16]

These consolidated financial statements were approved for issue by the Board of Directors on May 30, 2018 and signed on its behalf by:

/s/ Douglas G. Janzen
Director

/s/ Chris Clark
Director

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenue		$ 375,000	$ 293,002
Expenses			
Research and development	12[a]	192,968	398,273
Sales and marketing	12[b]	338,447	349,145
General administration	12[c]	659,370	559,639
		1,190,785	1,307,057
Loss before other income (loss)		(815,785)	(1,014,055)
Other income (loss)			
Interest income		-	3
Foreign exchange gain (loss)		(700)	619
		(700)	622
Net loss and comprehensive loss		$ (816,485)	$ (1,013,433)
Basic and diluted loss per common share		(0.01)	(0.02)
Weighted average number of common shares outstanding – basic and diluted		72,034,204	57,639,785

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

Aequus Pharmaceuticals Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders’ Equity
(Unaudited - Expressed in Canadian dollars)

	Common Shares		Contributed Surplus	Deficit	Total
	Number				
Balance, December 31, 2016	54,151,021	$ 12,606,882	$ 2,522,737	$ (13,863,935)	$ 1,265,684
Issued for cash pursuant to a bought deal financing *[note 8[b][i]]*	17,250,000	4,422,731	138,576	-	4,561,307
Share-based payments *[note 8 [e]]*	-	-	69,882	-	69,882
Shares cancelled pursuant to escrow agreement *[note 8[b][ii]]*	(336,000)	-	-	-	-
Net loss for the period	-	-	-	(1,013,433)	(1,013,433)
Balance, March 31, 2017	71,065,021	17,029,613	2,731,195	(14,877,368)	4,883,440
Shares issued for services *[note 8[b][iii]]*	286,117	65,450	-	-	65,450
Share-based payments *[note 8 [e]]*	-	-	225,117	-	225,117
Net loss for the period	-	-	-	(2,868,994)	(2,868,994)
Balance, December 31, 2017	71,351,138	17,095,063	2,956,312	(17,746,362)	2,305,013
Issued for cash pursuant to a financing *[note 8[b][iv]]*	1,000,000	300,000	-	-	300,000
Share issue costs		(15,270)	-	-	(15,270)
Shares issued for services *[note 8[b][v]]*	59,038	18,892	-	-	18,892
Share-based payments *[note 8 [e]]*	-	-	62,495	-	62,495
Net loss for the period	-	-	-	(816,485)	(816,485)
Balance, March 31, 2018	72,410,176	$ 17,398,685	$ 3,018,807	$ (18,562,847)	$ 1,854,645

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

Aequus Pharmaceuticals Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in Canadian dollars)

	Note	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
OPERATING ACTIVITIES			
Net loss for the period		$ (816,485)	$ (1,013,433)
Add items not affecting cash:			
Depreciation of property and equipment	5	4,055	4,410
Depreciation of intangible assets	6	42,397	42,397
Share-based payments	7 & 8[e]	70,993	93,890
Shares issued for services		18,892	-
		(680,148)	(872,736)
Changes in non-cash working capital items relating to operations:			
Amounts receivable		31,271	(30,797)
Prepaid expenses and deposit		11,871	22,267
Accounts payable and accrued liabilities		30,057	(182,532)
Cash used in operating activities		(606,949)	(1,063,798)
INVESTING ACTIVITIES			
Purchase of property and equipment	5	-	(48,883)
Cash used in investing activities		-	(48,883)
FINANCING ACTIVITY			
Issuance of common shares, net of issuance costs	8[b]	284,730	4,698,806
Cash provided by financing activity		284,730	4,698,806
Increase (Decrease) in cash and cash equivalents		(322,219)	3,586,125
Cash and cash equivalents, beginning of the period		1,164,518	473,242
Cash and cash equivalents, end of the period		$ 842,299	$ 4,059,367

Supplemental disclosure with respect to cash flow (Note 15)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013. The Company is a specialty pharmaceutical company focused on developing and commercializing high quality and differentiated products. The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

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

The Company has incurred losses and negative operating cash flows since its inception. As of March 31, 2018 the Company has accumulated a deficit of $18,562,847 (December 31, 2017 - $17,746,362) and working capital of $952,728 (December 31, 2017 - $1,348,147). Although it is difficult to predict future liquidity requirements, management believes the Company expects to have sufficient working capital to fund its operations until the third quarter of 2018. Given its current working capital, the Company may not be able to meet its financial obligations and sustain its operations in the normal course of the business, all of which cast substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to meet its long term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from the acquired business of Aequus Pharma (Canada) Ltd., formerly TeOra Health Ltd. ("TeOra"). On July 28, 2015, the Company completed its acquisition of TeOra, a privately held Canadian specialty pharmaceutical company (the "TeOra Acquisition") *[note 6[a]]*. The TeOra Acquisition provided the Company with sales and marketing capabilities, and an exclusive right to promote and market a branded generic ophthalmology product within Canada. On September 30, 2015, the Company further expanded this exclusive promotional right to include a transplant product called Tacrolimus IR. The Company receives revenues based on agreed upon percentages of net sales. The Company started generating service revenue from Tacrolimus IR in the first quarter of 2016 and from ^{PR}Vistitan™ sales in the second quarter of 2016. The Company's longer term business strategy for generating cash flow is to successfully develop its later stage product pipeline through marketing agreements or product commercialization profits and engaging in development and commercial partnerships for one or more of its development pipeline products which would generate licensing revenues for the Company from territories outside of Canada.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the fiscal year ended December 31, 2017, which have been prepared with International Financial Reporting Standards ("IFRS"). These Financial Statements were approved by the Company's Board of Directors on May 30, 2018.

[b] Basis of measurement

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

[c] Functional and foreign currency

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

2. BASIS OF PRESENTATION

[d] Significant accounting estimates and judgments

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

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

Critical Judgments

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

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

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

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

iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

Estimation Uncertainty

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

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

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

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

Estimation Uncertainty (continued)

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

iv. Revenues are recognized based on a calculation of estimated profits using actual third party sales figures. Changes in estimates of revenues are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES

These Financial Statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the fiscal year ended December 31, 2017, with the exception of the following:

[a] Changes in Accounting Policies - Revenue from Contracts with Customers

The Company adopted the requirements of IFRS 15 as of January 1, 2018. This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue — Barter Transactions Involving Advertising Services.

The main features introduced by this new standard compared with predecessor IFRSs are as follows:

Revenue is recognized based on a five-step model:

1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Changes in Accounting Policies - Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Amounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on January 1, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[b] Changes in Accounting Policies - Financial instruments (continued)

(ii) Measurement

Financial assets and liabilities at amortized cost.

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

(iii) Impairment of financial assets at amortized cost.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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 and expects no significant effect on the Company's consolidated financial statements when adopted.

- **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.

5. PROPERTY AND EQUIPMENT

	Office Furniture and Equipment	Computer Equipment	Website Costs	Leasehold Improvement	Total
Cost:					
Balance, December 31, 2016	$ 5,514	$ —	$ 42,235	$ 4,211	$ 51,960
Addition	5,039	1,609	—	—	6,648
Balance, December 31, 2017 and March 31, 2018	$ 10,553	$ 1,609	$ 42,235	$ 4,211	$ 58,608
Accumulated depreciation:					
Balance, December 31, 2016	$ 3,336	$ —	$ —	$ 2,666	$ 6,002
Depreciation	1,740	268	14,078	1,545	17,631
Balance, December 31, 2017	5,076	268	14,078	4,211	23,633
Depreciation	468	67	3,520	—	4,055
Balance, March 31, 2018	$ 5,544	$ 335	$ 17,598	$ 4,211	$ 27,688
Net book value:					
As of December 31, 2017	$ 5,477	$ 1,341	$ 28,157	$ —	$ 34,975
As of March 31, 2018	$ 5,009	$ 1,274	$ 24,637	$ —	$ 30,920

6. INTANGIBLE ASSETS

[a] On July 28, 2015, the Company acquired all issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market PR Vistitan™, an ophthalmology product within Canada. In exchange for these assets and services of TeOra shareholders *[Note 7]*, the Company issued 3,360,000 common shares of the Company valued at $1,002,120, repaid TeOra's liabilities of $154,817 in cash and incurred transaction costs of $82,448 for a total acquisition cost of $1,239,385. Of the 3,360,000 common shares issued, 420,000 common shares were released to TeOra shareholders upon closing, and the remaining 2,940,000 common shares were held in escrow for release over time for services performed and upon achievement of certain milestones *[Note 8[b]]*.

The Company accounted for this transaction as an acquisition of an asset and services, and allocated $847,945 and $391,440 of the acquisition costs to intangible assets and deferred share-based payments *[Note 7]*, respectively. The acquisition cost of intangible assets is amortized over a five-year period using a straight-line method with one half of the amortization recognized in the year of acquisition.

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "Supernus Agreement"). Pursuant to the terms of the Supernus Agreement, the Company paid an upfront fee of $478,940 (US$350,000) and is further obligated to pay additional licensing milestone fees of US$5.15 million, a mid-teen royalty fee on sales and a final sales milestone payment as described in *Note 10[b]*. Amortization of licensing fees will be recognized following the receipt of regulatory approval from Health Canada and upon commencement of commercial activities of the underlying products.

6. INTANGIBLE ASSETS (CONTINUED)

As of March 31, 2018 the net book value of intangible assets are as follows:

	TeOra Assets	Supernus Licensing Fee	Total
Cost:			
Initial advance for license:			
Balance, December 31, 2016, 2017 and March 31, 2018	$ 847,945	$ 478,940	$ 1,326,885
Accumulated amortization:			
Balance, December 31, 2016	$ 254,383	$ —	$ 254,383
Amortization of intangible assets	169,589	—	169,589
Balance, December 31, 2017	423,972	—	423,972
Amortization of intangible assets	42,397	—	42,397
Balance, March 31, 2018	$ 466,369	$ —	$ 466,369
Net book value:			
As of December 31, 2017	$ 423,973	$ 478,940	$ 902,913
As of March 31, 2018	$ 381,576	$ 478,940	$ 860,516

7. DEFERRED SHARE-BASED PAYMENTS

On July 28, 2015, the Company acquired all of the issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market ^{PR}Vistitan™, an ophthalmology product within Canada *[Note 6[a]]*. Share-based payment for services of TeOra shareholders was recognized up front as a deferred asset and is expensed using the graded-vesting approach. During the three months ended March 31, 2018, the Company recognized share-based payment expense of $8,498 (2017 – $24,008) related to the acquisition of TeOra. As of March 31, 2018, the net book value of the services acquired were as follows:

	Deferred share-based payments
Cost:	
Balance, December 31, 2016 & 2017 and March 31, 2018	$ 391,440
Accumulated amortization:	
Balance, December 31, 2016	$ 303,358
Amortization of deferred share-based payments	69,104
Balance, December 31, 2017	372,462
Amortization of deferred share-based payments	8,498
Balance, March 31, 2018	$ 380,959
Net book value:	
As of December 31, 2017	$ 18,978
As of March 31, 2018	$ 10,481

8. SHARE CAPITAL

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of March 31, 2018, and December 31, 2017, there were no preferred shares issued and outstanding.

[b] Common shares

	Number of Shares	Amount
Authorized		
Unlimited number of common shares without par value		
Issued and Outstanding		
Balance, December 31, 2016	$ 54,151,021	$ 12,606,882
Issued for cash pursuant to bought-deal financing*[note 8[b][i]]*	17,250,000	5,175,000
Share issue costs	—	(752,269)
Cancelled pursuant to TeOra Escrow agreement *[note 8[b][ii]]*	(336,000)	—
Shares issued for services *[note 8[b][iii]]*	286,117	65,450
Balance, December 31, 2017	71,351,138	17,095,063
Issued for cash pursuant to financing*[note 8[b][iv]]*	1,000,000	300,000
Share issue costs	—	(15,270)
Shares issued for services *[note 8[b][v]]*	59,038	18,892
Balance, March 31, 2018	$ 72,410,176	$ 17,398,685

Held in Escrow Accounts	Number of Shares	Percentage of Escrowed Shares
(i) Pursuant to listing requirements of the TSX Venture Exchange		
Balance, December 31, 2016	9,174,206	45.00%
Release on March 17, 2017	(3,058,069)	(15.00%)
Release on September 17, 2017	(3,058,069)	(15.00%)
Balance, December 31, 2017	3,058,068	15.00%
Release on March 17, 2018	(3,058,068)	(15.00%)
Balance, March 31, 2018	—	0%
(ii) Pursuant to the terms of the TeOra Acquisition [note 6[a]]		
Balance, December 31, 2016	1,176,000	35.00%
Release and cancellation for unmet performance milestone	(336,000)	(10.00%)
Release on closing date anniversary of the TeOra acquisition	(420,000)	(12.50%)
Balance, December 31, 2017 and March 31, 2018	420,000	12.50%
Balance, December 31, 2017	3,478,068	
Balance, March 31, 2018	420,000	

[i] 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. Each unit is comprised of one common share of the company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for a period of two years at an exercise price of $0.45 per share, subject to adjustment in certain events.

In the event the volume weighted average trading price of the Company’s common shares on the TSX Venture Exchange is greater than $0.80 per common share for a period of 15 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof by way of press release and in such case the warrants will expire on the 30th day after such notice is given.

8. SHARE CAPITAL (CONTINUED)

[b] Common shares (continued)

In connection to this financing, the Company paid $362,250 in commissions, $231,236 in legal and professional fees and $29,419 in filing fees. In addition, the Company issued 862,500 broker warrants in connection with the offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019. The fair value of the brokers warrants as calculated using Black-Scholes as $129,364 with the following assumptions: 67.884% volatility,0.80% risk free rate, 2 year expected life, 0% dividend, and $0.30 share price on issuance date.

[ii] Pursuant to the terms of the TeOra acquisition and the terms of the escrow agreement *[note 6[a]],* the Company cancelled 336,000 common shares relating to an unachieved performance milestone.

[iii] During the year ended December 31, 2017, the Company issued 286,117 common shares, as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided. The fair value of the shares is $65,450.

[iv] On January 31, 2018, the Company completed an equity financing of 1,000,000 units of the Company at a price of $0.30 per unit for total proceeds of $300,000. Each unit comprising of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.50 for a period of twenty-four months. The warrants include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $0.85 for 10 consecutive trading days.

[v] During the three months ended March 31, 2018, the Company issued 59,038 common shares, as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services. Under the terms of the agreement, Camargo will be compensated with a split of cash and common shares of the Company for the services provided. The fair value of the shares is $18,892.

[c] Common share purchase warrants

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2016	Nil	$ Nil
Issued	8,625,000	0.45
Balance, December 31, 2017	8,625,000	$ 0.45
Issued	1,000,000	0.50
Balance, March 31, 2018	9,625,000	$ 0.46

The remaining life of the 8,625,000 common share purchase warrants at March 31, 2018 is 0.96 years. These warrants expire March 13, 2019.

The remaining life of the 1,000,000 common share purchase warrants at March 31, 2018 is 1.83 years. These warrants expire January 31, 2020.

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price
Balance, December 31, 2016	123,750	$ 0.50
Expired	(123,750)	(0.50)
Issued pursuant to bought-deal financing[i]	862,500	0.30
Balance, December 31, 2017 and March 31, 2018	862,500	$ 0.30

8. SHARE CAPITAL (CONTINUED)

[d] Agents' warrants and broker's warrants

The remaining life of the Agents' Warrants at March 31, 2018 is 0.96 years.

[i] The Company issued 862,500 broker warrants in connection with the March 13, 2017 offering. Each broker warrant entitles the holder to acquire a unit at an exercise price of $0.30 per unit until March 13, 2019. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant can be exercised for a price of $0.45 per warrant until March 13, 2019.

[e] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the TSX Venture Exchange. On June 15, 2015, August 19, 2016, and June 12, 2017, the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 12,000,000 common shares. Under the Amended and Restated Stock Option Plan, the maximum number of common shares that may be optioned in favour of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favour of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the three months ended March 31, 2018 and 2017, the Company recorded share-based payments of $62,495 and $69,882, respectively. The fair values of stock options granted during the three months ended March 31, 2018 and 2017 was nil as there were no grant of options during the respective period.

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

	Number	Weighted Average Exercise Price
Balance, December 31, 2016	5,225,337	$ 0.40
Cancelled, expired or forfeited	(50,000)	(0.55)
Granted	2,902,941	0.19
Balance, December 31, 2017	8,078,278	0.32
Cancelled, expired or forfeited	(360,000)	(0.54)
Balance, March 31, 2018	7,718,278	$ 0.31

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
November 3, 2018	$ 0.31	400,000	400,000
November 1, 2019	0.16	600,000	300,000
December 2, 2018	0.27	500,000	500,000
May 31, 2020	0.25	1,124,337	1,124,337
December 12, 2021	0.35	565,000	565,000
December 18, 2022	0.55	350,000	350,000
March 6, 2023	0.55	350,000	350,000
July 9, 2023	0.57	300,000	262,500
September 30, 2023	0.55	186,000	153,500
April 21, 2024	0.47	900,000	620,000
July 22, 2024	0.35	150,000	75,000
December 6, 2025	0.20	2,292,941	573,235
Balance, March 31, 2018	$ 0.31	7,718,278	5,273,572

As of March 31, 2018, the weighted average remaining life for outstanding options was 4.68 years.

9. RELATED PARTY DISCLOSURE

[a] Transactions with related parties

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

		Three Months Ended March 31, 2018		Three Months Ended March 31, 2017
Management fees, Consulting fees & Salaries and wages	$	155,807	$	190,506
Share-based payments		47,078		48,080
	$	202,885	$	238,586

[i] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. (“NVI”) and Doug Janzen. Mr. Janzen is the Chief Executive Officer of the Company. Northview Ventures Inc. was compensated at a monthly rate of $25,000 from December 1, 2016 to March 31, 2017 and then $15,000 per month thereafter. During the three months ended March 31, 2018, NVI received $45,000 in compensation (2017 - $75,000).

[ii] Effective December 1, 2016, the Company entered into a consulting agreement with Crecera Consulting Inc. (“Crecera”) and Anne Stevens. Ms. Stevens is the Chief Operating Officer of the Company. Crecera was compensated at a monthly rate of $12,000 from December 1, 2016 to March 31, 2017 and then $12,500 per month thereafter. During the three months ended March 31, 2018, Crecera received $nil (2017 - $36,000) in compensation.

Effective October 1, 2017 the contract with Crecera was terminated and Anne Stevens entered into an employment contract with the Company compensated at a monthly rate of $12,500 for a total salaries of $37,500 for the three months ended March 31, 2018 (2017 – nil).

[iii] 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, 2018, Mr. Ball charged total consulting fees of $36,000 (2017 - $36,000).

As of March 31, 2018, the Company has included in its accounts payable and accrued liabilities $18,953 (December 31, 2017 - $17,967) due to Mr. Ball.

[iv] 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, Dr. McAfee was compensated at a daily rate of US$1,000. During the three months ended March 31, 2018, Dr. McAfee charged total consulting fees of $21,763 (2017 - $20,048).

As of March 31, 2018, the Company has included in its accounts payable and accrued liabilities $6,207 (December 31, 2017 - $3,764) due to Dr. McAfee.

[v] 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, 2018, Fehr & Associates charged total consulting fees of $15,544 (2017 - $23,458) for CFO and outsourced accounting services.

As of March 31, 2018, the Company has included in its accounts payable and accrued liabilities $4,864 (December 31, 2017 - $5,053) due to Fehr & Associates.

The amounts owing to the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment.

9. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

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

		Three Months Ended March 31, 2018		Three Months Ended March 31, 2017
Management fees, General administration	$	33,750	$	83,250
Management fees, Research and development		11,250		27,750
Salaries & Wages, General administration		28,125		-
Salaries & Wages, Research and development		9,375		-
Consulting fees, General administration		28,144		36,058
Consulting fees, Research and development		21,763		20,048
Consulting fees, Sales and marketing		23,400		23,400
Share-based payments, General administration		17,061		26,012
Share-based payments, Research and development		13,689		3,131
Share-based payments, Sales and marketing		16,328		18,937
	$	202,884	$	238,586

[c] Other

During the year ended December 31, 2017, the Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates to receive cost recovery of $500 and $3,150 per month for shared office space. During the three months ended March 31, 2018 the Company received $10,950 as a recovery of rent expense (2017 – 1,500).

10. COMMITMENTS AND CONTINGENCIES

[a] Operating lease

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 year ended December 31, 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 and operating costs, currently estimated at $7,230, on a monthly basis starting December 1, 2018. The basic rent commitment will increase to $140,147 for the year ended December 31, 2019 and $143,827, $147,507, and $151,187 in each of the following years.

[b] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 6[b]]*, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$5.15 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR and Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada.

[c] Collaborative Commercialization Agreement

Subsequent to March 31, 2018, Aequus entered into a commercial agreement with Mynosys Cellular Devices, an ophthalmology focused medical device company based in Fremont, California, (“Mynosys”) for the Canadian distribution, sales and marketing of the Zepto® Precision Pulse Capsulotomy System (“Zepto”) for cataract surgery.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

[c] Collaborative Commercialization Agreement (continued)

This agreement to bring Zepto into the Canadian market has an initial term of three years, with an automatic and continuous renewal of additional three year terms, provided Aequus meets minimum sales targets. Aequus will retain profits on the products sold in Canada.

[d] Contingencies

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

As of March 31, 2018, and December 31, 2017, the Company had not made any indemnification payments under such agreements and no amount had been accrued in the Financial Statements with respect to these indemnification obligations.

11. OPERATING SEGMENT

The Company has a single operating segment, the sales and marketing of pharmaceutical drugs developed by the Company or by its collaborative partners. Substantially all of the Company's operations, assets, and employees are in Canada.

12. OPERATING EXPENSES

[a] Research and development expenses

		Three Months Ended March 31, 2018		Three Months Ended March 31, 2017
Consulting and management fees *[note 9]*	$	122,450	$	108,362
Patent and intellectual property protection		-		33,536
Salaries and wages *[note 9]*		26,965		2,118
Share-based payments *[note 9]*		23,795		7,151
Subcontract research costs and development costs *[note 9]*		12,170		245,991
Travel and accommodation		7,588		1,115
	$	192,968	$	398,273

[b] Sales and marketing expenses

		Three Months Ended March 31, 2018		Three Months Ended March 31, 2017
Advertising, printing and promotion	$	6,546	$	15,637
Consulting and management fees *[note 9]*		27,000		50,925
Depreciation and amortization		45,917		45,917
Salaries and wages *[note 9]*		10,618		10,590
Subcontract salesforce		180,930		150,810
Share-based payments *[note 9]*		10,711		25,097
Travel and accommodation		56,725		50,169
	$	338,447	$	349,145

12. OPERATING EXPENSES (CONTINUED)

[c] General administration expenses

		Three Months Ended March 31, 2018		Three Months Ended March 31, 2017
Consulting and management fees *[note 9]*	$	430,270	$	255,177
Legal and professional fees		27,594		69,094
Other general administration expenses *[note 9]*		68,600		89,065
Regulatory and transfer agent fees		20,741		14,601
Salaries and benefits *[note 9]*		39,674		28,169
Share-based payments *[note 9]*		36,487		61,642
Travel and accommodation		36,004		41,891
	$	659,370	$	559,639

13. CAPITAL DISCLOSURES

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

The Company defines its capital as share capital and contributed surplus. The Company has financed its capital requirements primarily through share and warrant issuances since inception. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company’s approach to capital management during the three months ended March 31, 2018.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

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

The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are 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.

During the three months ended March 31, 2018 there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value (continued)

The following table summarizes the classification and carrying values of the Company's financial instruments at March 31, 2018 and December 31, 2017:

At December 31, 2017	Amortized cost (Financial asset)	FVTPL	Amortized cost (Financial Liabilities)	Total
Financial assets:				
Cash and cash equivalents	$ -	$ 1,164,518	$ -	$ 1,164,518
Amounts receivable	383,074	-	-	383,074
Total financial assets	$ 383,074	$ 1,164,518	$ -	$ 1,547,592
Financial liabilities:				
Accounts payable and accrued liabilities	$ -	$ -	$ 366,836	$ 366,836
Total financial liabilities	$ -	$ -	$ 366,836	$ 366,836

At March 31, 2018	Amortized cost (Financial asset)	FVTPL	Amortized cost (Financial Liabilities)	Total
Financial assets:				
Cash and cash equivalents	$ -	$ 842,299	$ -	$ 842,299
Amounts receivable	376,849	-	-	376,849
Total financial assets	$ 376,849	$ 842,299	$ -	$ 1,219,148
Financial liabilities:				
Accounts payable and accrued liabilities	$ -	$ -	$ 396,893	$ 396,893
Total Financial Liabilities	$ -	$ -	$ 396,893	$ 396,893

[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**") with banks, and government guaranteed securities with maturities of one year or less. The Company have cashable GIC at March 31, 2018 of $300,000 (December 31, 2017 - $850,000). Amounts receivable consist of goods and services tax due from the Government of Canada and service fees owed from a collaborative partner.

[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, 2018, the Company had working capital of $952,729 (December 31, 2017 - $1,348,147).

[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 three months ended March 31, 2018 and 2017, fluctuations in the market interest rates had no significant impact on its interest income.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk (continued)

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The Company has a portion of its operating expenses in U.S. dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollars relative to the U.S. dollars could have an effect on the Company's results of operations, financial position or cash flows.

As at March 31, 2018 and December 31, 2017, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2018 USD	December 31, 2017 USD
Cash and cash equivalents	$ -	$ 40
Accounts payable and accrued liabilities	(45,657)	(36,733)
Total	$ (45,657)	$ (36,693)

Based on the above net exposure as at March 31, 2018, 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 $3,800 (2017 - $1,834) in the Company's net loss. Furthermore, the company incurred $118,605 USD expenditures during the three months ended March 31, 2018. A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $5,930 in net loss.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash and cash equivalents consist of:		
Cash	$ 542,299	$ 4,059,367
Certificate of deposit	300,000	—
	$ 842,299	$ 4,059,367
Interest received/paid	$ —	$ —
Income taxes paid	$ —	$ —
Non-cash transactions:		
Share issue costs included in accounts payable and accrued liabilities	$ —	$ (137,499)
Fair value of securities issued for services	$ (18,892)	$ —

16. SUBSEQUENT EVENTS

[a] Subsequent to March 31, 2018, the Company issued 151,794 common shares as part of a service agreement entered into with Camargo Pharmaceutical Services, LLC for regulatory consulting services with a fair value of $45,124.

[b] Subsequent to March 31, 2018, the Company granted 30,000 stock options exercisable at $0.25 per share for a period of 8 years. 25% of the options vest immediately, 25% on the first anniversary of the grant date, and the remainder on the second anniversary of the grant date.