AEQUUS PHARAMCEUTICALS INC.

ANNUAL INFORMATION FORM

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

May 1, 2017

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TERMS OF REFERENCE

In this annual information form, a reference to the "Company", "Aequus", "we", "us", "our" and similar words refer to Aequus Pharmaceuticals Inc. and its subsidiary, TeOra Health Ltd. ("**TeOra**"), or either one of them, as the context requires.

All references to trade names and trade-marks of other companies, which trade names and trade-marks are the property of their respective owners.

Statistical information and other data relating to the pharmaceutical and biotechnology industry included in this annual information form are derived from industry reports published by industry analysts, industry associations and/or independent consulting and data compilation organizations. Market data and industry forecasts used throughout this annual information form were obtained from various publicly available sources. Although we believe that these independent sources are generally reliable, the accuracy and completeness of such information is not guaranteed and has not been independently verified.

The information set forth in this annual information form is as of December 31, 2016, unless another date is indicated. All references to dollars ($) in this document are expressed in Canadian funds, unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain statements and information in this annual information form contain forward-looking statements or forward-looking information under applicable Canadian securities legislation that may not be based on historical fact, including, without limitation, statements containing the words "believe", "may", "plan", "will", "estimate", "continue", "anticipate", "intend", "expect", "predict", "project", "potential", "continue", "ongoing" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words 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 annual information form 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 Vistitan™ 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 Vistitan;
- our estimates of the size and characteristics of the potential markets for Tacrolimus IR, Vistitan, Topiramate XR, Oxcarbazepine XR and our internal product candidates;
- the intention to complete a follow-on proof of concept ("**POC**") study and Phase 1 Bioequivalence clinical trial for our transdermal aripiprazole patch and the timing of the results thereof;
- the Company's development of its cannabinoid transdermal patch;
- the initiation, timing, cost, progress and success of our research and development programs, pre-clinical studies and clinical trials;
- our ability to advance product candidates into, and successfully complete, clinical trials;
- our ability to recruit sufficient numbers of patients for our future clinical trials;
- our ability to achieve profitability;

- our ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- whether our third party collaborators will maintain their intellectual property rights in the technology we license;
- the manufacturing capacity of third-party manufacturers for our product candidates;
- the implementation of our business model and strategic plans;
- our ability to develop and commercialize product candidates;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our expectations regarding federal, provincial and foreign regulatory requirements;
- whether we will receive, and the timing and costs of obtaining, regulatory approvals in the United States, Canada, the European Union and other jurisdictions;
- the therapeutic benefits, effectiveness and safety of our product candidates;
- the rate and degree of market acceptance and clinical utility of our future products, if any;
- the timing of, and our ability and our collaborators' ability, if any, to obtain and maintain regulatory approvals for our product candidates;
- our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;
- our ability to engage and retain the employees required to grow our business;
- the compensation that is expected to be paid to employees and consultants of the Company;
- our future financial performance and projected expenditures;
- developments relating to our competitors and our industry, including the success of competing therapies that are or become available; and
- estimates of our expenses, future revenue, capital requirements and our needs for additional financing.

Such forward-looking statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Aequus as of the date of such statements, are inherently subject to significant medical, scientific, 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 annual information form, 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 herein under the heading "*Risk Factors*". 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 annual information form 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.

CORPORATE STRUCTURE

The Company was incorporated under the name "Aequus Pharmaceuticals Inc." pursuant to the *Business Corporations Act* (British Columbia) (the "**BCBCA**") on January 3, 2013. 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.

In July 2015, the Company acquired a 100% interest in TeOra, which is the Company's only subsidiary. TeOra was incorporated under the BCBCA on October 6, 2014. See "*General Development of the Business – Three Year Development – Year Ended December 31, 2015 Developments*".

The Company's outstanding common shares (the "**Common Shares**") trade on the TSX Venture Exchange (the "**TSX-V**") under the symbol "AQS" and on the OCTQB® Venture Marketplace exchange in the United States under the symbol "AQSZF".

GENERAL DEVELOPMENT OF THE BUSINESS

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

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

Three Year Development

Recent Developments Subsequent to December 31, 2016

On January 9, 2017, the Company received approval from Health Canada to initiate a multi-dose POC study to evaluate the bioavailability and safety of the Company's once-weekly transdermal patch in healthy volunteers for aripiprazole, AQS1301. The study completed dosing on February 14, 2017 with positive results announced on April 3, 2017. As was predicted, steady state of aripiprazole, AQS1301 was reached in week three of dosing, with relative concentrations of aripiprazole and its active metabolite, comparable to oral dosing. There were no serious adverse events or safety concerns. Following the results of this study, the Company anticipates meeting with the FDA for a

pre-Investigational New Drug ("**pre-IND**") meeting to define the clinical strategy for regulatory approval in the United States.

On February 1, 2017, Aequus announced that it will receive funding from the National Research Council of Canada Industrial Research Assistance Program to support the multi-dose POC study of its lead product candidate, AQS1301. Aequus expects the final amount of the funding to be approximately $90,000.

On March 2, 2017, in connection with the Company's previously announced Research Service Contract (as defined below) with Transdermal Research Pharm Laboratories LLC ("**TRPL**"), the Company entered into a term sheet (the "**Cannabinoid Term Sheet**") to acquire an exclusive world-wide license to a transdermal patch containing cannabinoids for use in the treatment of epilepsy, Multiple Sclerosis and certain other neurological disorders.

On March 13, 2017, the Company closed a public offering of 17,250,000 units (the "**Units**") at a price of $0.30 per Unit, for aggregate gross proceeds to the Company of $5,175,000 (the "**2017 Offering**"), pursuant to the terms of an underwriting agreement (the "**Underwriting Agreement**") dated March 6, 2017 between the Company and Canaccord Genuity Corp. (the "**Underwriter**").

Each Unit issued under the 2017 Offering is comprised of one Common Share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "**Warrant**"). Each Warrant is exercisable to acquire one Common Share (a "**Warrant Share**") for a period of two years following the closing date of the 2017 Offering at an exercise price of $0.45 per Warrant Share, subject to adjustment in certain events. In the event that the volume weighted average trading price of the Company's Common Shares on the TSX-V 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. The Warrants are governed by a warrant indenture (the "**Warrant Indenture**") dated March 13, 2017, between the Company and Computershare Trust Company of Canada, as agent for the holders of the Warrants (the "**Warrant Agent**").

In addition, Aequus issued to the Underwriter a total of 862,500 broker warrants (the "**Broker Warrants**") in connection with the 2017 Offering. Each such Broker Warrant entitles the holder to acquire a Unit at an exercise price of $0.30 per Unit for a period of two years following the closing of the 2017 Offering.

Year Ended December 31, 2016 Developments

On January 12, 2016, the Company closed a non-brokered private placement in the United States of 1,797,422 Common Shares and a non-brokered public offering in Canada of 3,500,000 Common Shares at a price of $0.50 per Common Share for aggregate gross proceeds of approximately $2.65 million (the "**January 2016 Financing**").

On February 4, 2016, the Company announced the results of its POC study for AQS1301. This initial clinical study was conducted in a single trial site in Canada and dosing was completed in late December 2015. The study was designed as a double-blinded, single-dose, randomized, placebo-controlled, seven-day safety and bioavailability study, enrolling 12 healthy volunteers. The primary objective of the study was to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation. The results of the study suggest that sustained, seven-day delivery of therapeutic doses of aripiprazole may be possible with the current formulation.

On February 12, 2016, the Company entered into a licensing agreement (as replaced on June 15, 2016 to amend certain licensing fees, the "**Supernus Agreement**") for the Canadian commercial rights to extended-release topiramate ("**Topiramate XR**") tablets (marketed as Trokendi XR® in the U.S.) and extended-release oxcarbazepine ("**Oxcarbazepine XR**") tablets (marketed as Oxtellar XR® in the U.S.) with Supernus Pharmaceuticals, Inc. ("**Supernus**"), a U.S.-based specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system disorders. Both products are branded, once-daily, medications for the treatment of epilepsy, and have been successfully marketed by Supernus in the U.S. since 2013.

On April 28, 2016, the Company initiated commercial activities for Vistitan (bimatoprost 0.03%, ophthalmic solution) in the Canadian market, a prostaglandin approved as a treatment for the reduction of elevated intraocular pressure ("**IOP**") in patients with open angle glaucoma or ocular hypertension.

On July 22, 2016, Ann Fehr was appointed as the Company's Chief Financial Officer ("**CFO**").

On July 29, 2016, the Company filed an international patent application with the U.S. Patent & Trademark Office that covers transdermal extended-release formulations of clobazam, relating to the Company's AQS1302 program.

On August 5, 2016, the Company announced that it had filed an international patent application with the U.S. Patent & Trademark Office that covers transdermal extended-release formulations of doxylamine succinate and pyridoxine hydrochloride in combination, relating to the Company's AQS1303 program to treat pregnant women experiencing nausea and vomiting.

On September 13, 2016, the Company closed a public offering of 9,146,400 Common Shares at a price of $0.30 per Common Share for aggregate gross proceeds of $2,743,920 pursuant to the terms of an agency agreement (the "**Agency Agreement**") dated September 8, 2016 between the Company and Cormark Securities Inc. and Canaccord Genuity Corp. (the "**September 2016 Financing**").

On September 29, 2016, the Company obtained provincial formulary coverage from the Ontario Drug Benefit Program for Vistitan (bimatoprost 0.03% w/v, ophthalmic solution) (with similar status to other drugs listed in the same class) for the reduction of elevated intraocular pressure (IOP) in certain patients with open angle glaucoma or ocular hypertension (e.g. patients who cannot tolerate certain other drugs).

On September 30, 2016, the Company entered into three service agreements (collectively, the "**Camargo Service Agreement**") with Camargo Pharmaceutical Services, LLC ("**Camargo**") pursuant to which Camargo will be providing regulatory consulting services for the Company's three development programs, AQS1301, AQS1302 and AQS1303, including pre-IND meeting planning and preparations through to United States New Drug Application submissions.

On October 17, 2016, the Company announced that it had filed a Clinical Trial Application ("**CTA**") with Health Canada for its once-weekly transdermal aripiprazole patch. The Company has developed this product to provide patients with sustained and controlled delivery of aripiprazole in a convenient, weekly dosage form. The Company initiated dosing in Canada for this study on January 9, 2017.

On November 17, 2016, the Company entered into a service agreement (the "**Corium Services Agreement**") with Corium International, Inc. ("**Corium**") for the manufacturing of clinical trial materials for the Company's transdermal doxylamine/pyridoxine long-acting patch, AQS1303.

On November 30, 2016, the Company's management services agreement with Northview expired. Pursuant to such agreement, Northview's employees, including Doug Janzen and Anne Stevens, direct the affairs and manage the Company's business and administer or arrange for the administration of the Company's day-to-day operations. The Company subsequently entered into separate agreements, each with an effective date of December 1, 2016, with the holding companies of each of Mr. Janzen and Ms. Stevens.

On December 1, 2016, the Company announced it had obtained provincial formulary coverage from Alberta Health and Manitoba Health for Vistitan.

Year Ended December 31, 2015 Developments

On February 19, 2015, the Company received the final receipt for its long form prospectus dated February 18, 2015 and became a reporting issuer in Alberta, British Columbia, Manitoba and Ontario.

On March 17, 2015, the Company's Common Shares began trading on the TSX-V under the symbol "AQS".

On April 28, 2015, the Company and Corium, a commercial-stage biopharmaceutical company focused on the development, manufacture and commercialization of specialty transdermal products, entered into a collaboration agreement (the "**Multi-product Collaboration Agreement**" or "**Collaboration Agreement**"), under which the parties may co-fund new transdermal products with an initial focus on neurological disorders. Under the terms of the Multi-product Collaboration Agreement, for each product selected for development the parties will assign an allocation of responsibilities, costs, rights and product revenues. Additional product development programs under the Multi-product Collaboration Agreement will primarily be focused on neurological disorders in which current treatments are limited by high-frequency dosing, side effects or painful injections, all of which potentially increase the risk of non-compliance.

On July 13, 2015, Anne Stevens was promoted to Chief Operating Officer of Aequus.

On July 28, 2015, the Company acquired all of the issued and outstanding shares of TeOra, a privately held Canadian specialty pharmaceutical company (the "**TeOra Acquisition**"). The TeOra Acquisition provided the Company with sales and marketing capabilities, and a right to promote and market a branded generic ophthalmology product within Canada. Total consideration for the TeOra Acquisition was 420,000 Common Shares which were issued to TeOra shareholders upon closing, and an additional 2,940,000 Common Shares which will be held in escrow and released based on the achievement of certain milestones and performance targets and additional product launches. See "*Escrowed Securities*". Ian Ball, the founder of TeOra, was appointed as Chief Commercial Officer of the Company effective on July 28, 2015.

On August 27, 2015, the Company's outstanding Common Shares started trading on the OTCQB® Venture Marketplace exchange in the United States under the symbol "AQSZF".

On September 29, 2015, the Company entered into a binding term sheet (the "**Term Sheet**") with an unnamed partner in Canada to be its exclusive promotion and marketing partner in the Canadian market for tacrolimus IR, an immunosuppressive therapy used for the treatment and prevention of acute rejection following organ transplantation, and potentially in connection with two additional transplant products. The parties subsequently negotiated and entered into a definitive promotional service agreement dated December 1, 2015 (the "**Promotional Services Agreement**").

On October 30, 2015, the Company closed an offering of 2,475,000 Common Shares at a price of $0.50 per Common Share, for aggregate gross proceeds of $1,237,500 pursuant to the terms of an agency agreement dated October 21, 2015 between the Company and Richardson GMP Limited.

On November 16, 2015, the Company initiated a Phase 1 POC study to evaluate the bioavailability and safety of its lead product development program, AQS1301. The Company completed dosing for the POC study on December 14, 2015 and the results of which were announced on February 4, 2016.

On December 2, 2015, the Company initiated sales and marketing efforts in the Canadian market for tacrolimus IR. At such time, Aequus deployed its specialty hospital sales force targeting major transplant centers across Canada.

Year Ended December 31, 2014 Developments

On May 23, 2014, Aequus entered into a development agreement with Corium (the "**Development Agreement**") whereby both parties would collaborate on the evaluation and development of AQS1301. On the same date, Aequus and Corium agreed to negotiate the Collaboration Agreement to co-fund and develop additional transdermal products. Shortly after the execution of and pursuant to the Development Agreement, Aequus began the technology transfer process with Corium and transferred all Aequus' clinical and technical data, along with certain analytical methods and materials, to Corium. See "*Description of the Business – Strategic Agreements - Corium International, Inc.*".

On October 20, 2014, Anne Stevens was appointed as a Director and as Vice President, Corporate Development of the Company, and Dr. Don McAfee was appointed as Acting Chief Scientific Officer of the Company.

On December 10, 2014, Aequus formally appointed Doug Janzen as Chairman and Chief Executive Officer ("**CEO**") and Christina Yip as Acting CFO of the Company.

DESCRIPTION OF THE BUSINESS

Aequus' Business Strategy

Aequus has evolved from a purely development stage company to a revenue-generating, fully integrated specialty pharmaceutical company with development stage products and commercial activities in Canada. Aequus looks to leverage its existing core capabilities, 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 U.S. Food and Drug Administration ("**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 established medicines specialty sales force in Canada to enable Aequus to continue to in-license and sell differentiated and branded generic products in Canada.

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

The following is a summary of the Company's recent transactions and activities:

Development Program Activities

- Advanced lead development program, AQS1301, a once-weekly transdermal formulation of aripiprazole through an initial single dose exposure proof of concept study, in an effort to demonstrate sustained, seven-day delivery of therapeutic doses may be possible with the current formulation. A follow-on proof of concept study was commenced in January 2017 and dosing was completed in February 2017. This study was designed as a repeat dose, 28-day study, the results of which will inform the final design of the patch to be advanced into the regulatory phase of the Company's clinical trials. Aequus has also expanded the patent portfolio for this program, with a patent issued / allowed in six major countries or regions to date, namely the United States, Russia, Mexico, Japan, Australia and Canada, with several other major markets pending.

- Advanced the long-acting transdermal clobazam program, AQS1302, for the treatment of epilepsy and the long-acting transdermal doxylamine/pyridoxine combination patch program, AQS1303, for the treatment of nausea and vomiting in pregnancy through technical feasibility studies and the filing of international patent applications for each program covering the formulations expected to be advanced into Proof of Concept clinical studies in 2017.

- Engaged with Camargo to prepare for pre-IND meetings with the FDA in an effort to define the clinical strategy for regulatory approval in the United States for each internal program of the Company. Aequus expects each program to follow a Section 505(b)2 New Drug Application ("**NDA**"), an abbreviated clinical pathway in which the FDA would allow Aequus to reference safety and efficacy data of the original formulation.

- In connection with the Company's previously announced Research Service Contract with TRPL, the Company entered into the Cannabinoid Term Sheet to acquire an exclusive world-wide license to a transdermal patch containing cannabinoids for use in the treatment of epilepsy, Multiple Sclerosis and certain other neurological disorders.

Commercial Activities

- In October, 2015, Aequus became the exclusive promotional and marketing partner for three transplant products, including the first to market generic form of tacrolimus IR. The three products 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 Vistitan, a treatment for the reduction of elevated IOP in patients with open angle glaucoma or ocular hypertension. Aequus has 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.

- In February 2016, Aequus in-licensed Canadian commercial rights to two branded generic epilepsy products: Topiramate XR tablets and Oxcarbazepine XR tablets from Supernus. Aequus expects to file a Canadian New Drug Submission for each product in 2017. Both products are branded generic, once-daily, medications for the treatment of epilepsy, and have been successfully marketed by Supernus in the United States since 2013.

Aequus expects to continue to advance its development programs through bioequivalence clinical studies and regulatory meetings with the FDA while also making select investments aimed at expanding and improving the efficiency of its sales channel in Canada through a combination of in-licensing and the acquisition of high-quality, differentiated products in specialty therapeutic areas. The Company also plans to expand its product portfolio to include additional established medicines that can be commercialized using the Company's established Canadian sales infrastructure.

Aequus' Commercial Pipeline

Aequus has been successfully building out its Canadian commercial platform with sales and marketing capabilities since mid 2015 to launch promotional efforts in Canada for products that are either created internally or brought in through an acquisition, partnership or in-licensing.

On September 29, 2015, the Company entered into the Term Sheet with an unnamed partner in Canada, which provides Aequus an exclusive right to promote and market tacrolimus IR, a branded generic transplant product and a potential for two additional branded generic transplant products from the same producer who granted the ophthalmology product to TeOra. The parties subsequently negotiated and entered into the Promotional Services Agreement. On April 28, 2016, pursuant to the Promotional Services Agreement, the Company initiated commercial activities for Vistitan (bimatoprost 0.03%, ophthalmic solution) in the Canadian market. Aequus will receive revenues from these products based on agreed upon percentages of net sales.

In February 2016, the Company further expanded its commercial pipeline by obtaining the Canadian commercial rights to Trokendi XR® and Oxtellar XR® through the Supernus Agreement. Both products are branded, once-daily, extended-release products for the treatment of epilepsy.

TACROLIMUS IR

The first commercial product promoted by Aequus' salesforce is tacrolimus IR, an immunosuppressive therapy used for the treatment and prevention of acute rejection following organ transplantation. Immunosuppressive therapy is prescribed to patients as part of their overall lifelong management to prevent graft rejection.

The immunosuppressive market in Canada is estimated to be over $300 million, of which, tacrolimus products account for approximately 30% of the market. Transplant therapeutics is a unique space due to the complexity and sensitivity of therapy. Aequus will be promoting the only currently approved branded generic form of tacrolimus IR, which has demonstrated bioequivalence to Prograf in the largest clinical dataset of any generic worldwide with over 280,000 patient years studied. This product was initially approved by Health Canada in November 2013 and has been significantly underperforming since launch compared to its adoption in other markets. Aequus believes that with

promotional support and by creating an awareness with physicians around the robust clinical package supporting the transition of patients to this particular generic form, a sizeable market can be accomplished. Aequus initiated its promotional activities for tacrolimus IR in December 2015 and has since been awarded three major hospital tenders in the two largest provinces in Canada, which will allow patients to more readily access this product in those areas. Sales of Aequus' promoted version of Tacrolimus IR has grown 90% year-over-year in 2016 when compared to 2015. Under the terms of the Promotional Services Agreement, Aequus receives a tiered revenue split on incremental sales of the product, with revenues beginning in the first quarter of 2016.

VISTITAN
(bimatoprost 0.03%, ophthalmic solution)

The second product promoted by Aequus' salesforce is a branded generic ophthalmology product, Vistitan (bimatoprost 0.03%, ophthalmic solution), obtained through the TeOra Acquisition. Commercial activities commenced for this product in April, 2016. 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 2014 was estimated to be over $137 million, of which prostaglandins remain one of the primary treatment options for lowering IOP in glaucoma.

Bimatoprost is a synthetic prostamide analogue and is structurally related to prostaglandin F2α. Its mechanism of action resembles that of prostaglandin F2α, a naturally occurring substance. Vistitan, which was approved by Health Canada in 2014, is currently the only marketed version of 0.03% bimatoprost ophthalmic solution indicated for the reduction of elevated intraocular pressure in patients with open angle glaucoma or ocular hypertension. Bimatoprost 0.03% has been studied in two randomized, multicenter, double-blinded, parallel-group clinical studies, of 12 months duration, conducted on 1198 patients with glaucoma or ocular hypertension, versus timolol twice-daily as an active control. Over the 12 month study duration bimatoprost predictability lowered IOP in over 90% of patients to 22mgHg or less, with approximately 50% of patients having IOPs of 17mmHg or less. Additionally, in a meta-analysis published by the Canadian Agency for Drugs and Technologies in Health in 2015, bimatoprost 0.03% was demonstrated to be superior or equivalent to other prostaglandins in reducing IOP.

Under the terms of the Promotional Services Agreement, Aequus will split revenues of this product with its partner in a tiered structure.

TOPIRAMATE EXTENDED-RELEASE and OXCARBAZEPINE EXTENDED-RELEASE
(under the tradenames of Trokendi XR® and Oxtellar XR® in the United States)

The third and fourth products in the Company's commercial pipeline were acquired pursuant to the Supernus Agreement with Supernus, whereby the Company acquired the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. The original licencing agreement with Supernus was subsequently replaced by the Supernus Agreement. Both products are branded, once-daily, extended-release products for the treatment of epilepsy, 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 a Canadian New Drug Submission in 2017.

If approved, these products are expected to be the first-to-market, extended release, once-daily forms of topiramate and oxcarbazepine available to patients in Canada. These products are different from the currently available immediate release forms by offering convenient once-daily dosing and unique pharmacokinetic profiles that can have positive clinical effects for some patients with epilepsy. The expected benefits of once-daily extended release forms of anti-epileptic drugs such as Trokendi XR® and Oxtellar 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.

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

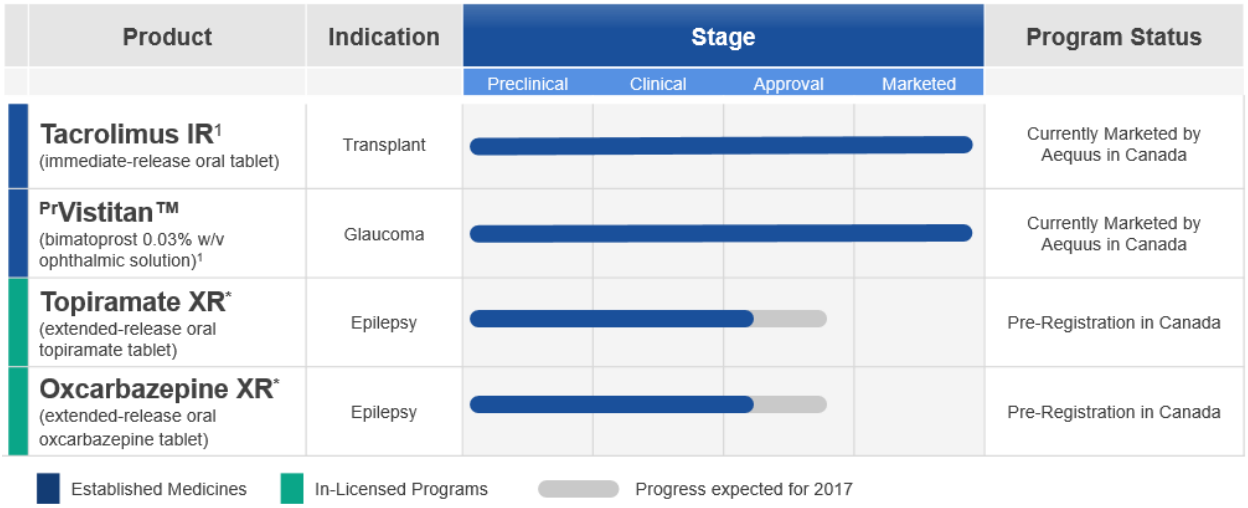
Topiramate XR is a once-daily topiramate product designed to improve patient compliance and to show a better pharmacokinetic profile than the currently available immediate release products, which must be taken multiple times per day. The currently approved immediate release form of topiramate in Canada 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.

Table 1 – Commercial Product Development



Aequus' Product Development Pipeline

Aequus' product development pipeline is focused on improving the route of delivery for certain existing drugs. Through physician and patient insights, Aequus identifies and selects product candidates where missing a scheduled dose in its currently available form could potentially put the patient at risk of relapsing into a serious event. Aequus, together with its development partners, will assess the feasibility of alternate routes of delivery that would satisfy the identified need. Currently, Aequus has three development stage programs in neurology, psychiatry and women's health using an extended-release transdermal delivery technology acquired from TRPL and optimized with Corium under their Multi-product Collaboration. Aequus will continue to leverage the capabilities and skillsets of its transdermal development partners, as well as continue to seek new development technologies that may provide similar benefits to patients in complementary therapeutic areas.

Aequus owns the exclusive, world wide rights for its interally developed programs, and expects to engage with regional commercial partners as these programs advance through clinical studies.

AQS1301 – Once-weekly transdermal aripiprazole

Key Highlights

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

Product Overview

Aripiprazole is an atypical anti-psychotic sold under the brand name Abilify®. Originally approved and marketed in 2002 for schizophrenia, Abilify® is currently sold in over 65 countries and regions. Since its initial approval, aripiprazole has seen a label expansion in the United States to include acute treatment of manic and mixed episodes

associated with bipolar I, adjunctive treatment of major depressive disorder, irritability associated with autistic disorder, and treatment of Tourette's disorder. In 2015, Abilify® saw its first generic competition in the USA as its patent exclusivity expired. For 2015, aripiprazole US sales totaled $6.3 billion, with branded Abilify® representing 70% of sales revenues. Aripiprazole remains one of the most commonly prescribed anti-psychotics globally, with the compound currently available in oral tablets, oral solution, and intramuscular injection.

AQS1301 is designed to consistently deliver aripiprazole over a seven-day period at levels comparable to currently marketed once-daily formulations. By delivering aripiprazole over seven days in a comfortable, convenient and easy-to-use weekly patch, AQS1301 is intended to promote enhanced patient compliance.

Aequus completed pre-clinical studies for a once-weekly, transdermal aripiprazole patch with its development and manufacturing partner, Corium International, Inc. ("**Corium**") in July 2015, received approval from Health Canada to initiate a non-IND Phase 1 POC study in November 2015, and completed dosing in the first stage of the POC recently on December 14, 2015. The Company announced the results of this POC study on February 4, 2016 (see "*General Development of the Business – Three Year Development – Year Ended December 31, 2016 Developments*"). In January 2017, the Company received approval from Health Canada to initiate a follow-on POC study for AQS1301 and the Company completed the dosing phase of this study in mid-February 2017. The Company announced results of this POC study on April 3rd, 2017. (see "*General Development of the Business – Recent Developments Subsequent to December 31, 2016*"). Pursuant to the Collaboration Agreement, Corium may co-fund up to 50% of the clinical programs following the Phase 1 POC study for a higher level of the economics of the sales or licensing revenues of AQS1301 (see "*Description of the Business – Strategic Agreements – Corium International, Inc.*").

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 antiepilectic drugs
- Skin tolerability studies to date have shown positive safety data, Aequus expects to enter Proof of Concept clinical studies in 2017, anticipating approval via the Section 505(b)(2) accelerated approval pathway in the United States

Product Overview

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

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

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

AQS1303 – Long-acting transdermal pyridoxine / doxylamine

Key Highlights

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

Product Overview

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

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

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

AQS1304 – Medical Cannabis

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

Aequus anticipates filing an NDA with the FDA, for approval of AQS1301, AQS1302 and AQS1303 which is required before marketing a new drug in the U.S. Section 505(b)(2) NDA relies in part on clinical trials that Aequus needs to conduct, and in part on third-party findings of safety and efficacy for the active ingredients for which Aequus has not obtained a right of reference or which have been established in the scientific literature in the public domain.

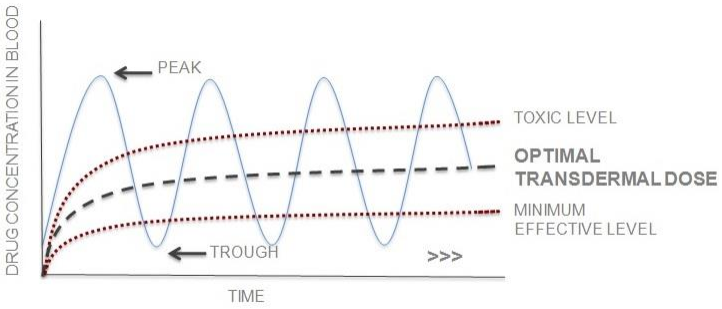
Advantages of Transdermal Delivery Systems

Aequus' current development programs rely on transdermal delivery systems. Aequus believes that a transdermal route of delivery provides patient therapeutic and commercial benefits. In particular:

- Transdermal delivery increases compliance due to longer-acting dosing regimens with controlled, sustained release of agents that have a short biological half-life and would normally require frequent administration.

- A transdermal patch provides visual evidence of drug therapy which improves compliance in patients who are reluctanctant to take their medication or are forgetful.

- Transdermal delivery allows superior control of the rate of delivery directly into the bloodstream when compared to oral delivery. Drug levels are maintained over a long period of time, without the inherent fluctuations of periodic oral delivery.



- Avoidance of gastrointestinal absorption and first pass metabolism can increase drug bioavailability in comparison to oral formulations. This is particularly important in patients experiencing episodes of vomiting or who have serious GI disturbance or simply have trouble swallowing.

- Transdermal delivery avoids the need for "fed" or "fasted" conditions associated with many approved drugs, and also eliminates certain gastrointestinal side-effects via transdermal delivery.

- In contrast to long lasting depot injections or sustained release tablets, transdermal therapy can be discontinued almost immediately, simply by removing the patch.

- Transdermal patches are easier to administer than oral or parenteral dosage forms.

As with any delivery method, there are some disadvantages to transdermal drug delivery. These include the potential for skin irritation, allergic response, limited and varied skin permeability, drugs with very low or high partition coefficient failing to reach blood circulation and the difficulty of heavy drug moleclues penetrating the stratum comea.

Commercial Assessments of Market Segments with Unmet Needs

Aequus has completed commercial and medical-needs assessments of the relevant markets for its development and commercial pipeline products and expects to complete similar assessment for any other proposed product candidates prior to devoting material resources towards the development of such product. These commercial assessments involve input from physicians, patients and payors, a comprehensive investigation of the current and future competitive landscape, pricing and reimbursement dynamics within a therapeutic category, intellectual property and the building of a target product profile that Aequus expects to use to guide clinical development to create a meaningful value proposition to provide benefits to patients, physicians and/or other stakeholders.

Preclinical and Clinical Development

The development of a new dosage form for an already approved drug, such as a change from a solid oral dosage form to a transdermal patch, can rely to some extent on previous safety and/or efficacy data provided by the literature or can reference past findings of safety and effectiveness for the approved drug according to a Section 505(b)(2) NDA with the FDA. Thus, the development timelines and costs associated with the studies required to be conducted by Aequus for approval of a transdermal formulation of aripiprazole under the Section 505(b)(2) regulatory pathway in the U.S. (and equivalent approval pathways in other jurisdictions) could be less than what is required for a new chemical entity.

Aequus has completed in-vitro skin flux, skin irritation and porcine pharmacokinetic pre-clinical studies to determine the optimal formulation for AQS1301 as a once-weekly, transdermal aripiprazole patch. The Company completed a non-IND POC study enrolling healthy volunteers to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation. In February 2017, the Company completed the dosing phase of its follow-on POC study in healthy volunteers evaluating the bioavailability and safety of AQS1301, and announced positive results on April 3rd 2017. Under the terms of the Multi-product Collaboration Agreement, Corium has an option to co-fund up to 50% of the clinical program following review of the Canadian non-IND Phase 1 POC clinical trial results and in return, Corium would participate in a higher level of the economics of the sales or licensing revenues accordingly.

Non-IND Phase 1 Proof of Concept and Phase 1 Bioequivalence Study

Aequus, along with its key advisors, designed and filed a CTA for a two stage IND Phase 1POC study to determine the pharmacokinetic profile of AQS1301 in healthy human subjects. On November 10, 2015, Aequus received a No Objection Letter from Health Canada for the first stage of this study and initiated dosing healthy volunteers in December 2015. The study was designed as a double-blinded, single-dose, randomized, placebo-controlled, seven-day safety and bioavailability study, enrolling 12 healthy volunteers. The primary objective of this first stage of the POC study was to assess the blood levels of aripiprazole over the seven-day period with Aequus' transdermal formulation. The results from this study were announced on February 4, 2016. The results suggest that sustained, seven-day delivery of therapeutic doses of aripiprazole may be possible with the current formulation. The formulation was tolerated with no serious adverse events reported and minimal skin irritation seen at the application site.

The Company commenced a follow-on POC study for AQS1301 in Janaury 2017 and dosing was completed in February 2017. This study was designed as a repeat dose, 28-day study, the results of which will inform the final design of the patch to be advanced into the regulatory phase of the Company's clinical trials.

Aequus engaged Camargo in October 2016 to prepare for a pre-IND meeting with the FDA, expected by mid 2017 for AQS1301, in an effort to further define the clinical strategy for regulatory approval in the United States. It is expected that patches with the specifications derived from both POC studies will be manufactured and a clinical trial site will be established in the U.S. or Canada to conduct a study suitable to support a NDA 505(b)(2) submission. Aequus expects to engage a clinical contract research organization ("**CRO**") to complete the design and conduct of these trials.

A Phase 1 Bioequivalence study is expected to be required by the FDA, which is currently expected to enroll approximately 30 healthy subjects. We anticipate subjects will be exposed to a single dose of AQS1301 to determine the bioequivalence of our target product profile over a seven-day period. This Phase 1 Bioequivalence study is not expected to take more than three months to complete from initiation.

Phase 2 Clinical Study

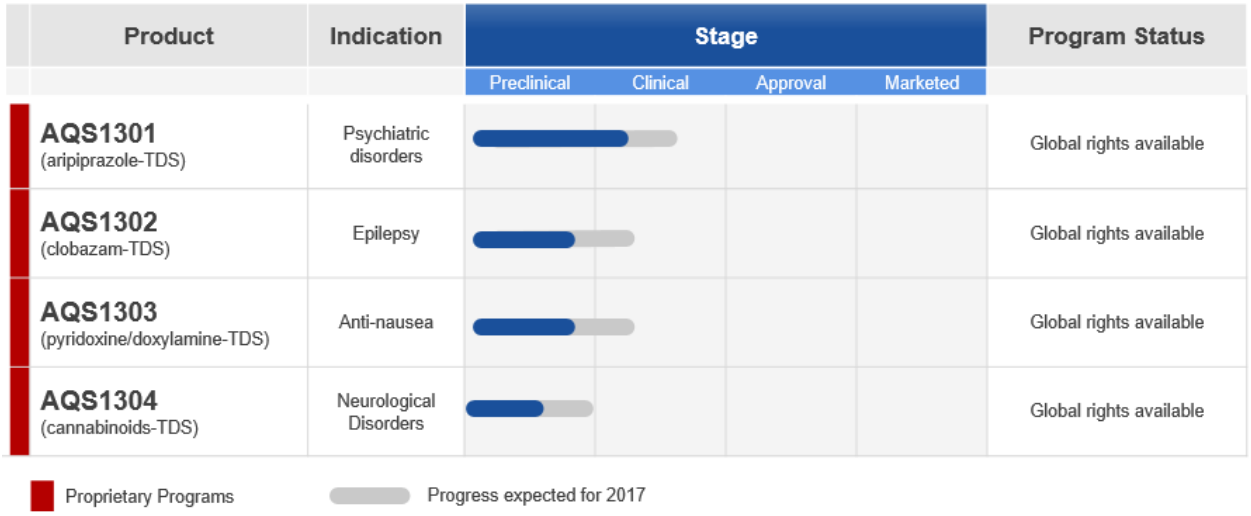
In order to obtain regulatory approval, the Company may be required to carry out at least one clinical study with at least several hundred patients. The target patient population will be dependent on the advice of our clinical advisors and the results from the POC and Bioequivalence Phase 1 studies. For the Phase 2 clinical study, we anticipate patients will be exposed to AQS1301 over a 28-day period. This study is expected to take approximately one year to complete. Aequus intends to have a third party development collaborator or commercialization partner engaged prior to initiating this study to support the funding requirements of this study.

Clinical Development Timeline

Aequus plans to advance the development of AQS1301 through to completion of the Phase 1 Bioequivalence study in the next year. Concurrent with the Phase 1 clinical programs for AQS1301, Aequus anticipates engaging in partnering discussions to advance AQS1301 through the Phase 2 clinical study. In the next year, Aequus also plans to accelerate its second and third internal programs, AQS1302, AQS1303, and the recently announced potential program for medical cannabis, AQS1304, through formulation development. AQS1302 is designed to be a once-daily, and up to a once-weekly transdermal clobazam patch; while AQS1303 is intended to be once-daily / once-weekly transdermal doxylamine/pyridoxine patch.

The following table summarizes Aequus' current development plan for its product pipeline for the next two years.

Table 2 – Internal Product Development



The Company's product development progress is contingent upon a number of factors. See the heading "*Risk Factors*". There can be no assurances that Aequus will complete each stage of development in accordance with the timelines set out above, or at all.

Steps to Reach Commercial Production

In order for AQS1301, AQS1302 and AQS1303 to reach commercial production in the United States, the Company anticipates the development steps set forth below.

With respect to AQS1301, (i) formulation optimization (completed); (ii) a POC study (completed); (iii) a follow-on Proof of Concept study (completed), (iv) a Phase 1 Bioequivalence study; (v) a clinical study to obtain regulatory approval (if required); and (vi) a regulatory application with the FDA for commercial approval in the United States (if required). The Company anticipates filing a regulatory application for FDA approval of AQS1301 in the second half of 2018 if no clinical study is required. The Company expects to invest an estimated $1.5 million to advance AQS1301 through a Phase 1 Bioequivalence study, and will work with a collaborative development partner to advance the product from Phase 2 clinical study onward, if required.

With respect to AQS1302, (i) formulation optimization and preclinical animal studies (in progress); (ii) a Phase 1 POC and follow-on studies; (iii) a Phase 1 Bioequivalence study; (iv) a clinical study to obtain regulatory approval (to be further defined in a pre-IND meeting with the FDA); and (v) a regulatory application with the FDA for commercial approval in the United States (if required). The Company anticipates achieving commercial production of AQS1302 in the second half of 2019 in a scenario where a clinical study to obtain regulatory approval is needed. The Company expects to advance AQS1302 through a Phase 1 Bioequivalence study at an estimated cost of $2.5 million (inclusive of the POC study); and transfer late stage development from Phase 2 clinical study (if required) onward to a potential collaborative partner, if such a study is required for approval.

With respect to AQS1303, (i) formulation optimization and preclinical animal studies (in progress); (ii) a Phase 1 POC and follow-on studies; (iii) a Phase 1 Bioequivalence study; (iv) a clinical study to obtain regulatory approval (to be further defined in a pre-IND meeting with the FDA); and (v) a regulatory application with the FDA for commercial approval in the United States (if required). The Company anticipates achieving commercial production of AQS1303 in the second half of 2019 in a scenario where a clinical study to obtain regulatory approval is needed. The Company expects to advance AQS1303 through a Phase 1 Bioequivalence study at an estimated cost of $2.5 million (inclusive

of the POC study); and transfer late stage development from Phase 2 clinical study onward to a potential collaborative partner, if such a study is required for approval.

With respect to AQS1304, the Company also expects to develop of an initial formulation over the course of the next 12 months, and initial human POC studies, expected to occur in late 2017. The Company is continuing to review the preferred path for AQS1304 to reach commercial production and the timing and cost thereof. The foregoing timeline is the Company's best estimate as of the date hereof. As AQS1304 was newly licensed by the Company, the actual costs and timing of its development may differ materially from what is disclosed herein.

The Company's actual costs, timing and steps to reach commercial development are subject to a variety of risks. See "*Risk Factors*" below.

Manufacturing

Aequus does not own manufacturing facilities. Aequus currently relies, and expects to rely, on a third party for the regulated manufacture of its product candidates for pre-clinical trials and clinical trials, should such clinical trials be undertaken by the Company (See "*Description of the Business – Strategic Agreements*"), as well as for commercial manufacture if any of Aequus' product candidates receive marketing approval. In 2015, Aequus entered into the Collaboration Agreement with Corium to manufacture the transdermal formulation of aripiprazole (See "*Description of the Business – Strategic Agreements – Corium International, Inc.*"). The Company plans to negotiate a manufacturing agreement with Supernus to produce Topiramate XR and Oxcarbazepine XR on behalf of the Company for the Canadian market if commercial approval is obtained from Health Canada (See "*Description of the Business – Strategic Agreements – Supernus Pharmaceuticals, Inc.*"). Aequus currently expects the current FDA-approved manufacturing capacity at Corium will be able to meet all Aequus' expected clinical trial and commercial needs for its programs in development.

Aequus' Experienced Management and Advisory Team

Aequus' senior executives, in their capacities with various pharmaceutical and life sciences organizations, have completed over $1.5 billion in licensing and strategic transactions, overseen clinical trials involving thousands of patients, achieved regulatory approval for a number of drugs and devices, successfully led the launch of approved drugs in Canada and other regions, including having these new drugs added to formularies for reimbursement, and gained industry recognized expertise in multinational sales, marketing and commercial supply chain management. (See "*Executive Officers and Dire*ctors").

In addition, Aequus has a team of clinical and scientific advisors with drug development experience and over 100 publications in scientific journals on the subject of transdermal drug applications. Aequus' initial pipeline has been strategically focused on transdermal delivery due to Aequus' belief that there are high market barriers to entry in the transdermal delivery product category. Aequus currently has a number of pending patents in the U.S. and other territories covering a transdermal formulation for the world's largest selling antipsychotic, aripiprazole, which Aequus believes will provide a benefit to patients by reducing the risk of relapse associated with patients' non-compliance with currently approved oral formulations. (See "*Description of the Business – Patents and Proprietary Protection*").

Strategic Agreements

Corium International, Inc.

Corium is a commercial-stage biopharmaceutical company focused on the development, manufacture and commercialization of specialty transdermal products. Aequus and Corium entered into the Development Agreement for the advancement of Aequus' AQS1301 program on May 23, 2014. Through the Development Agreement, Aequus gained access to Corium's expertise in transdermal delivery.

On April 28, 2015, the Company and Corium entered into the Collaboration Agreement, under which the parties may co-fund new transdermal products with an initial focus on neurological disorders. Under the terms of the Collaboration

Agreement, for each product selected for development the parties will assign an allocation of responsibilities, costs, rights and product revenues. Additional product development programs under the Collaboration Agreement will primarily be focused on neurological disorders in which current treatments are limited by high-frequency dosing, side effects or painful injections, all of which potentially increase the risk of non-compliance.

The term of the Collaboration Agreement is the later of five years and when all the programs initiated under the Collaboration Agreement have been terminated. The Collaboration Agreement may be terminated by either party for certain material breaches by the other party. During the term of the Program (as defined in the Collaboration Agreement), Corium and the Company each agree to work exclusively with the other Party on the development of any product incorporating aripiprazole for transdermal delivery anywhere in the world. In addition, the Company has agreed to indemnify Corium and its affiliates, and each of their respective employees, officers, and directors and agents from all liability, loss, damage, expense and cost resulting from certain third party claims.

On November 17, 2016, the Company and Corium entered into the Corium Services Agreement for the manufacturing of clinical trial materials for Aequus' transdermal doxylamine/pyridoxine long-acting patch, AQS1303.

Transdermal Research Pharm Laboratories LLC

TRPL provides specialty pre-clinical research services in topical and transdermal delivery systems. Aequus and TRPL entered into a research service contract on August 1, 2013 (the "**Research Service Contract**"), to evaluate the physiochemical properties of certain drugs, screen penetration enhancers/retarders and excipients, and to develop an optimal transdermal formulation for those selected drug candidates. Through the Research Service Contract, Aequus gains access to TRPL's expertise in formulation development for transdermal products.

Pursuant to the terms of the Research Service Contract, Aequus and TRPL intend to develop a transdermal formulation, either reservoir or matrix, including analytical methods, for select drug candidates as identified by Aequus and TRPL. Prior to a development or research project commencing, a research plan would need to be agreed upon by both parties. The research plan would include an outline of the project goals, objectives, deliverables, methodology, estimated timeline, and costs. TRPL will ensure reproducibility and transferability of data and methods, and with documentation suitable to establish Intellectual Property (as that term is defined in the Research Service Contract) rights.

During the term of and for six months after the expiry of the Research Service Contract, Aequus shall have the right to acquire an exclusive worldwide, royalty-bearing, and sub-licensable licence on any Intellectual Property arising from or related to the Research (as that term is defined in the Research Service Contract), on reasonable commercial terms. Intellectual Property includes, but is not limited to, proprietary methods, devices, technologies, trade secrets, inventions, compositions, designs, prototypes, technical and non-technical information, manufacturing processes, and formulae. Aequus has the right to request that TRPL protect any Intellectual Property arising from or related to the research that Aequus considers necessary.

On March 1, 2016, Aequus and TRPL entered into the IP Assignment Agreement. Pursuant to the terms of the IP Assignment Agreement, all patents and patent applications associated with AQS1301 Aripiprazole, AQS1302 Clobazam and AQS1303 Doxylamine / Pyridoxine have been assigned to Aequus.

TRPL was founded by Dr. Fotios Plakogiannis, President of TRPL, and Dr. Rodoula Plakogiannis, Director of TRPL, to hold certain intellectual property assigned to TRPL from Alpha and Omega Pharmaceutical Consultants Inc., a company owned by Dr. Fotios Plakogiannis. Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis are responsible for directing and managing the research and business operations, and own a combined 58.2%, of TRPL. Dr. Fotios Plakogiannis invited Charlie Perperidis, Peter Wilson, Doug Janzen, Alexander Goumeniouk and Anne Stevens to join TRPL, and those individuals now hold the remaining 41.8% of TRPL. Doug Janzen was appointed as a Director of TRPL on March 3, 2013. Dr. Fotios Plakogiannis and Dr. Rodoula Plakogiannis were appointed as Directors of Aequus on January 3, 2013 and October 20, 2013, respectively.

Supernus Pharmaceuticals, Inc.

Supernus is a U.S.-based specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system disorders. On February 12, 2016, Aequus and Supernus entered into the original licencing agreement with Supernus, which was subsequently replaced by the Supernus Agreement, whereby the Company licensed the Canadian commercial rights to Topiramate XR and Oxcarbazepine XR. Both products are branded, once-daily, extended-release products for the treatment of epilepsy, and have been successfully marketed by Supernus in the U.S. since 2013.

Pursuant to the terms of the Supernus Agreement, the Company was obligated to pay Supernus an upfront licensing fee, as well as ongoing payments upon the completion of various milestones and royalty payments based on net sales of Topiramate XR and Oxcarbazepine XR in Canada. Aequus will be responsible for the regulatory submission and commercial activities for both products in Canada.

Camargo Pharmaceutical Services, LLC

The Company has engaged Camargo under the Camargo Service Agreement to provide regulatory consulting services for the Company's three development programs, AQS1301, AQS1302 and AQS1303, including for pre-IND meeting planning and preparations through to NDA submissions. Camargo is an experienced global strategist specializing in drug and combination product development and approval utilizing the regulatory pathway provided for in Section 505(b)(2) of the U.S. *Federal Food, Drug, and Cosmetic Act*.

Regulatory Environment

Aequus' product candidates and its research and development activities are subject to regulation for safety, efficacy, quality and ethics by various governmental authorities around the world, which regulate, among other things, the research, development, testing, manufacture, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing and import and export of pharmaceutical products. In Canada, these activities are primarily regulated by the *Food and Drugs Act* and the rules and regulations thereunder, which are enforced by the Therapeutic Products Directorate of Health Canada (the "**TPD**"). In the U.S., drugs and biological products are subject to regulation by the FDA. Drug approval laws require licensing of manufacturing facilities, carefully controlled research and testing of products, government review and approval of experimental results prior to giving approval to sell drug products. Regulators also typically require that rigorous and specific standards such as Good Manufacturing Practices, Good Laboratory Practice and Good Clinical Practices ("**GCP**") are followed in the manufacture, testing and clinical development, respectively, of any drug product. The processes for obtaining regulatory approvals in Canada, the U.S. and in foreign countries, along with subsequent compliance with applicable statutes and regulations, require the expenditure of substantial time and financial resources. For further information, see "*Risk Factors*".

The principal steps required for drug approval in both Canada and the U.S. are as follows:

Pre-Clinical Toxicology Studies

Non-clinical studies are conducted *in vitro* and in animals to evaluate pharmacokinetics, metabolism and possible toxic effects to provide evidence of the safety of the drug candidate prior to its administration to humans in clinical studies and throughout development. Such studies have been completed for AQS1301.

Initiation of Human Testing

The process of conducting clinical trials with a new drug cannot begin until the Company has submitted to the appropriate regulatory authorities an application to do so and the required number of days have lapsed without objection from the regulatory authority. (In certain jurisdictions, a no objection letter or approval may be required before the clinical trial can proceed.) In the U.S., this application is called an Investigational New Drug ("**IND**") application, and in Canada, a Clinical Trial Application ("**CTA**"). On November 16, 2015, the Company announced that it would initiate a non-IND Phase 1 POC study for AQS1301 following the receipt of a No Objection Letter from

Health Canada to Aequus' clinical trial application. The Company subsequently completed and announced positive results from this clinical trial in February 2016 (see "*General Development of the Business - Three Year Development*"). In January 2017, the Company received approval from Health Canada to initiate a follow-on POC study for AQS1301 and the Company completed the dosing phase of this study in mid-February 2017, and reported positive results on April 3rd 2017. (see "*General Development of the Business – Recent Developments Subsequent to December 31, 2016*").

In the U.S., an IND sponsor must submit the results of the preclinical tests, together with manufacturing information, analytical data and any available clinical data or literature, among other things, to the FDA as part of an IND, unless the sponsor is relying on prior FDA findings of safety or efficacy of the drug product, in which case, some of the above information may be omitted. Some preclinical testing may continue even after the IND is submitted. An IND automatically becomes effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions related to one or more proposed clinical trials and places the trial on a clinical hold. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. As a result, submission of an IND may not result in the FDA allowing clinical trials to commence. Similar regulations apply in Canada and foreign jurisdictions in which Aequus may seek approval.

Two key factors influencing the rate of progression of clinical trials are the rate at which patients can be enrolled to participate in the research program and whether effective treatments are currently available for the disease that the drug is intended to treat. Patient enrollment is largely dependent upon the incidence and severity of the disease, the treatments available and the potential side effects of the drug to be tested and any restrictions for enrollment that may be imposed by regulatory agencies. For further information, see "*Risk Factors*".

Clinical Trials

Clinical trials involve the administration of an investigational new drug to human subjects under the supervision of qualified investigators in accordance with current Good Clinical Practices ("**cGCP**") requirements, which include the requirement that all research subjects provide their informed consent in writing for their participation in any clinical trial, and review and approval by regulatory bodies and ethics review boards or institutional review boards. Clinical trials are conducted under protocols detailing, among other things, the objectives of the trial, the trial procedures, the parameters to be used in monitoring safety and the efficacy criteria to be evaluated and a statistical analysis plan. In the U.S., a protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. In addition, an institutional review board ("**IRB**") for each clinical trial site participating in the clinical trial must review and approve the plan for any clinical trial before it commences, and the IRB must continue to oversee the clinical trial while it is being conducted, including any changes. Information about certain clinical trials, including a description of the study and study results, must be submitted within specific timeframes to the National Institutes of Health for public dissemination on their ClinicalTrials.gov website. Similar regulations apply in Canada and foreign jurisdictions in which Aequus may seek approval. In Canada, Research Ethics Boards, instead of IRBs, are used to review and approve clinical trial plans.

Human clinical trials are typically conducted in three sequential phases, which may overlap or be combined. In Phase 1, the drug is initially introduced into a small group of healthy human subjects or subjects with the target disease or condition and tested for safety, dosage tolerance, absorption, metabolism, distribution, excretion and, if possible, to gain an initial indication of its effectiveness. The number of subjects in a Phase 1 trial typically ranges from 20 to 80. Phase 2 trials are typically initiated if the Phase 1 studies do not reveal unacceptable toxicity levels. In Phase 2, the drug typically is administered through controlled studies to a limited subject population with the target disease or condition to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the drug for specific targeted diseases and to determine dosage tolerance and optimal dosage. The number of subjects in a Phase 2 study typically ranges from 100 to 300. If the Phase 2 trials present evidence of effectiveness, the clinical sponsor typically meets with FDA to try to come to an agreement on the structure of the Phase 3 studies. In Phase 3, the drug is administered to an expanded subject population, generally at geographically dispersed clinical trial sites in two adequate and well-controlled clinical trials, in order to generate enough data to statistically evaluate the efficacy and safety of the product candidate for approval, to establish the overall risk-benefit profile of the product candidate and to provide adequate information for the labeling of the product candidate. The number of subjects in a Phase 3 trial usually ranges from several hundred to about 3,000 people. In the U.S., in the case of a 505(b)(2) NDA, which is a

marketing application in which sponsors may rely on information from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference, some of the above-described studies and preclinical studies may not be required or may be abbreviated. Bridging studies may be needed, however, to demonstrate the applicability of the studies that were previously conducted by other sponsors to the drug that is the subject of the marketing application.

The manufacture of investigational drugs for the conduct of human clinical trials is subject to Current Good Manufacturing Practice ("**cGMP**") requirements. Investigational drugs and active pharmaceutical ingredients imported into the U.S. or Canada are also subject to regulation by the FDA/TPD relating to their labeling and distribution.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the TPD or FDA and the IRB or REB, as applicable, and more frequently if serious adverse events occur. Phase 1, Phase 2 and Phase 3 clinical trials may not be completed successfully within any specified period, or at all. Furthermore, in the U.S. and Canada, the FDA/TPD or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk. Similarly, an IRB/REB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's/REB's requirements or if the drug has been associated with unexpected serious harm to subjects. Additionally, some clinical trials are overseen by an independent group of qualified experts organized by the clinical trial sponsor, known as a data safety monitoring board or committee. This group regularly reviews accumulated data and advises the study sponsor regarding the continuing safety of trial subjects, potential trial subjects, and the continuing validity and scientific merit of the clinical trial. We may also suspend or terminate a clinical trial based on evolving business objectives or competitive climate.

In most cases in the U.S., the FDA requires two adequate and well controlled Phase 3 clinical trials to demonstrate the efficacy of the drug. A single Phase 3 trial with other confirmatory evidence may be sufficient in rare instances where the study is a large multicenter trial demonstrating internal consistency and a statistically very persuasive finding of a clinically meaningful effect on mortality, irreversible morbidity or prevention of a disease with a potentially serious outcome and confirmation of the result in a second trial would be practically or ethically impossible.

New Drug Application

Upon successful completion of Phase 3 clinical trials, the company sponsoring a new drug then assembles all the pre-clinical and clinical data and other testing relating to the product's pharmacology, chemistry, manufacture, and controls, and submits it to the TPD or the FDA as part of a New Drug Submission ("**NDS**"), in Canada, or a NDA in the U.S. The NDS or NDA is then reviewed by the applicable regulatory body for approval to market the drug. Other jurisdictions, such as Europe and Japan, have their own equivalents for these approvals.

As part of the approval process, the FDA/TPD will inspect the facility or the facilities at which the drug is manufactured. FDA/TPD will not approve the product unless compliance with cGMP —a quality system regulating manufacturing—is satisfactory and the NDA/NDS contains data that provide substantial evidence that the drug is safe and effective in the indication studied. In addition, before approving an NDA/NDS, the FDA/TPD will typically inspect one or more clinical sites to assure compliance with GCP.

The testing and approval process for an NDA/NDS requires substantial time, effort and financial resources, and may take several years to complete. Data obtained from preclinical and clinical testing are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA/TPD may not grant approval of an NDA/NDS on a timely basis, or at all. In the U.S., the submission of most NDAs is additionally subject to a substantial application user fee, currently at US$2,038,100, and the manufacturer and/or sponsor under an approved new drug application are also subject to annual product and establishment user fees, currently at US$97,750 per product and US$512,000 per establishment. These fees are typically increased annually. In Canada, NDSs are also subject to user fees (the applicable fee for the class of NDS that Aequus expects to submit was $76,132 in 2014) and these fees are typically increased annually to reflect inflation.

Even if the FDA or TPD approves a product candidate, the relevant authority may limit the approved indications for use of the product candidate, require that contraindications, warnings or precautions be included in the product labeling, including a black box warning, require that post-approval studies, including Phase 4 clinical trials, be conducted to further assess a drug's safety after approval, require testing and surveillance programs to monitor the product after commercialization, or impose other conditions, including distribution restrictions or other risk management mechanisms. For example, the FDA may require a risk evaluation and mitigation strategy ("**REMS**"), as a condition of approval or following approval to mitigate any identified or suspected serious risks and ensure safe use of the drug. The REMS plan could include medication guides, physician communication plans, assessment plans, and elements to assure safe use, such as restricted distribution methods, patient registries or other risk minimization tools. A REMS could materially affect the potential market and profitability of the product. The FDA or TPD may prevent or limit further marketing of a product based on the results of post-marketing studies or surveillance programs. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes, and additional labeling claims, are subject to further testing requirements, notification, and regulatory authority review and approval. Further, should new safety information arise, additional testing, product labeling or regulatory notification may be required.

Approvals in the U.S. pursuant to the Hatch-Waxman Act

Section 505 of the *Federal Food, Drug and Cosmetic Act* ("**FDCA**") describes three types of marketing applications that may be submitted to the FDA to request marketing authorization for a new drug. A Section 505(b)(1) NDA is an application that contains full reports of investigations of safety and efficacy. A 505(b)(2) NDA is an application that contains full reports of investigations of safety and efficacy but where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. This regulatory pathway enables the applicant to rely, in part, on the FDA's prior findings of safety and efficacy for an existing product, or published literature, in support of its application. Section 505(j) establishes an abbreviated approval process for a generic version of approved drug products through the submission of an Abbreviated New Drug Application ("**ANDA**"). An ANDA provides for marketing of a generic drug product that has the same active ingredients, dosage form, strength, route of administration, labeling, performance characteristics and intended use, among other things, to a previously approved product. ANDAs are termed "abbreviated" because they are generally not required to include preclinical (animal) and clinical (human) data to establish safety and efficacy. Instead, generic applicants must scientifically demonstrate that their product is bioequivalent to, or performs in the same manner as, the innovator drug through in vitro, in vivo or other testing. The generic version must deliver the same amount of active ingredients into a subject's bloodstream in the same amount of time as the innovator drug and can often be substituted by pharmacists under prescriptions written for the reference listed drug. In seeking approval for a drug through an NDA, applicants are required to list with the FDA each patent with claims that cover the applicant's drug or a method of using the drug. Upon approval of a drug, each of the patents listed in the application for the drug is then published in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. Drugs listed in the Orange Book can, in turn, be cited by potential competitors in support of approval of an ANDA or 505(b)(2) NDA.

Upon submission of an ANDA or a 505(b)(2) NDA, an applicant must certify to the FDA that (1) no patent information on the drug product that is the subject of the application has been submitted to the FDA; (2) such patent has expired; (3) if the patent has not expired the date on which such patent expires and the date on which approval is sought after patent expiration; or (4) such patent is invalid or will not be infringed upon by the manufacture, use or sale of the drug product for which the application is submitted. Generally, the ANDA or 505(b)(2) NDA cannot be approved until all listed patents have expired, except where the ANDA or 505(b)(2) NDA applicant challenges a listed patent through the last type of certification, also known as a Paragraph IV certification. If the applicant does not challenge the listed patents or indicates that it is not seeking approval of a patented method of use, the ANDA or 505(b)(2) NDA application will not be approved until all of the listed patents claiming the referenced product have expired.

If the ANDA or 505(b)(2) NDA applicant has provided a Paragraph IV certification to the FDA, the applicant must send notice of the Paragraph IV certification to the NDA holder and patent owner(s) once the application has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement lawsuit in response to the notice of the Paragraph IV certification. If the Paragraph IV certification is challenged by an NDA holder or the patent owner(s) asserts a patent challenge to the Paragraph IV certification, the FDA may not approve

that application until the earlier of 30 months from the receipt of the notice of the Paragraph IV certification, the expiration of the patent, when the infringement case concerning each such patent was favorably decided in the applicant's favor or settled, or such shorter or longer period as may be ordered by a court. This prohibition is generally referred to as the 30-month stay. In instances where an ANDA or 505(b)(2) NDA applicant files a Paragraph IV certification, the NDA holder or patent owner(s) regularly take action to trigger the 30-month stay, recognizing that the related patent litigation may take many months or years to resolve. Thus, approval of an ANDA or 505(b)(2) NDA could be delayed for a significant period of time depending on the patent certification the applicant makes and the reference drug sponsor's decision to initiate patent litigation.

The U.S. *Drug Price Competition and Patent Term Restoration Act of 1984* (the "***Hatch-Waxman Act***") establishes periods of regulatory exclusivity for certain approved drug products, during which the FDA cannot approve (or in some cases accept) an ANDA or 505(b)(2) application that relies on the branded reference drug. For example, the holder of an NDA, including a 505(b)(2) NDA, may obtain five years of marketing exclusivity upon approval of a new drug containing new chemical entities ("**NCEs**") that have not been previously approved by the FDA. A drug is an NCE if the FDA has not previously approved any other new drug containing the same active moiety, which is the molecule or ion responsible for the therapeutic activity of the drug substance. During the exclusivity period, the FDA may not accept for review an ANDA or a 505(b)(2) NDA submitted by another company that contains the previously approved active moiety. However, an ANDA or 505(b)(2) NDA may be submitted after four years if it contains a certification of patent invalidity or non-infringement.

The *Hatch-Waxman Act* also provides three years of marketing exclusivity to the holder of an NDA (including a 505(b)(2) NDA) for a particular condition of approval, or change to a marketed product, such as a new formulation for a previously approved product, if one or more new clinical studies (other than bioavailability or bioequivalence studies) was essential to the approval of the application and was conducted/sponsored by the applicant. This three-year exclusivity period protects against FDA approval of ANDAs and 505(b)(2) NDAs for the condition of the new drug's approval. As a general matter, the three year exclusivity does not prohibit the FDA from approving ANDAs or 505(b)(2) NDAs for generic versions of the original, unmodified drug product. Five-year and three-year exclusivity will not delay the submission or approval of a full NDA; however, an applicant submitting a full NDA would be required to conduct or obtain a right of reference to all of the preclinical studies and adequate and well-controlled clinical trials necessary to demonstrate safety and efficacy. Aequus anticipates filing a Section 505(b)(2) NDA with the FDA, for approval of AQS1301 in the U.S., and similar regulatory pathways in other jurisdictions.

In Canada, an atypical antipsychotic could only be marketed if an NDS or, in certain cases, an Abbreviated New Drug Submission ("**ANDS**") is filed and the TPD approves the submission and issues a notice of compliance ("**NOC**"). An NDS requires safety, efficacy and quality information, while an ANDS requires quality information as well as information showing bioequivalence between the drug that is the subject of the ANDS and the drug it is being compared to. An ANDS will only be sufficient to obtain an NOC in limited situations, namely if a company is seeking to market a generic version of a drug that is already marketed and certain other requirements are met. In this case, since no topical dosage form (i.e., no patch) of aripiprazole already exists on the market, an ANDS will not be sufficient to obtain an NOC for AQS1301.

Similar to the *Hatch-Waxman Act* in the U.S., Canada has the Patented Medicines (NOC) Regulations which requires a company that files an ANDS to address any relevant patents listed on the Patent Register prior to being able to receive an NOC from the TPD. The Canadian regime is similar to the U.S. regime, but a number of important distinctions do exist.

Like the U.S., Canada also has data protection, but again significant differences exist between the two jurisdictions. For example, Canada's data protection applies to "innovative drugs" (i.e., a drug that contains a medicinal ingredient not previously approved in a drug by the Minister and that is not a variation of a previously approved medicinal ingredient such as a salt, ester, enantiomer, solvate or polymorph) and, where it exists, lasts for 8 years in most circumstances.

Intellectual Property, Patents, Proprietary Protection

Intellectual Property

Aequus believes its intellectual property is a barrier to potential competitors. Pursuant to the license agreement between the Company and TRPL as amended June 1, 2014 and March 11, 2015 (the "**License Agreement**"), Aequus obtained an exclusive, perpetual, world-wide, royalty-free license right to a provisional patent around the transdermal formulation of aripiprazole.

On March 1, 2016, Aequus and TRPL entered into the intellectual property assignment agreement (the "**IP Assignment Agreement**"). Pursuant to the terms of the IP Assignment Agreement, Aequus owns all patents and patent applications associated with AQS1301 Aripiprazole, AQS1302 Clobazam and AQS1303 Doxylamine / Pyridoxine. The Company's current patent portfolio includes three issued patents and ten published or pending patent applications in the North America, Europe and other jurisdictions worldwide for AQS1301 Aripiprazole, one provisional patent in the United States for AQS1302 Clobazam, and one provisional patent in the United States for AQS1303 Doxylamine / Pyridoxine. Aequus intends to file, when appropriate, additional patent applications with respect to inventions. However, because the patent positions of life sciences companies are highly uncertain and involve complex legal and factual questions, it is uncertain that any patents will be issued or that, if issued, they will be of commercial value. See "*Risk Factors – Risks Related to Intellectual Property Rights*".

Aequus entered into the Collaboration Agreement with Corium to manufacture the transdermal formulation of aripiprazole (See "*Description of the Business – Strategic Agreements – Corium International, Inc.*"). In the event that Corium's proprietary and patent-protected transdermal delivery system technology is incorporated into the product, the Collaboration Agreement provides for Corium to grant Aequus an exclusive, worldwide, license to such technology solely to develop, use, have used, distribute for sale, promote, market, sell, have sold, offer for sale, import and export for the specific product. Aequus has potential revenue sharing obligations in connection with AQS1301 or future programs pursuant to the Collaboration Agreement. In addition, Aequus may be subject to royalty obligations if any of its other assets are commercialized in the future.

Patent Portfolio

Aequus considers its patent portfolio to be an important contributor to its business and therefore devotes resources to maintaining and augmenting its patent portfolio. Aequus' patent strategy is to pursue the broadest possible patent protection on Aequus' proprietary formulations, products and technology in selected jurisdictions and to achieve the maximum duration of patent protection available. Where appropriate, and consistent with management's objectives, patents are pursued once concepts have been validated through appropriate laboratory work. To that end, patents will continue to be sought in relation to those components or concepts that management of the Company perceives to be important. In general, Aequus' strategic approach is to build a portfolio which provides broad protection of Aequus' technology.

Proprietary Protection

In addition to Aequus' patents, the Company also relies upon trade secrets, know-how and continuing technological innovations to develop its competitive position. It is Aequus' policy to require its directors, employees, consultants, members of its scientific advisory board and parties to collaborative agreements to execute confidentiality agreements upon the commencement of employment, consulting or collaborative relationships with Aequus. In the case of employees and consultants, the agreements provide that all inventions resulting from work performed for Aequus utilizing Aequus' property or relating to Aequus' business and conceived of or completed by the individual during employment are Aequus' exclusive property.

Employees

As of December 31, 2016, Aequus had two employee positions. The Company mainly uses consultants and contractors to conduct its operations.

Facilities

The Company operates from its head office located in Vancouver, BC, Canada and maintains an office in Penticton, BC, Canada for use of its Chief Commercial Officer. Operations related to the AQS1301 program are primarily outsourced to contractors including Corium, based in Menlo Park, California and TRPL, based in Long Island City, New York.

RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the following risks in addition to the other information included in this annual information form, including our historical consolidated financial statements and related notes, before you decide to purchase our common shares. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our securities, including Common Shares, could decline and you could lose part or all of your investment. The risks set out below are not the only risks we face; risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition and results of operations. You should also refer to information set out in our consolidated financial statements and management's discussion and analysis for the year ended December 31, 2016.

Risks Related to the Clinical Trial Process and Regulatory Approval for Aequus' Product Candidates

Aequus has not obtained regulatory approval for any of Aequus' internal product candidates in Canada, the U.S. or any other country.

Aequus currently does not have any of its own product candidates that have gained regulatory approval for sale in Canada, the U.S. or any other country, and Aequus cannot guarantee that its development programs will ever obtain marketing approval. Aequus' business is substantially dependent on Aequus' ability to complete the development of, obtain regulatory approval for and successfully commercialize product candidates in a timely manner. Aequus' potential product candidates will be principally regulated in the U.S. by the FDA, in Canada by the TPD, in the European Union by the European Medicines Agency ("**EMA**"), and in other jurisdictions by applicable regulatory authorities.

Before obtaining regulatory approvals in Canada, the U.S. or in other countries where Aequus may market Aequus' potential product candidates for a target indication, Aequus must demonstrate in preclinical studies and well-controlled clinical trials that the product candidate is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. In the U.S., it is necessary to submit an NDA to obtain FDA approval. An NDA must include extensive preclinical and clinical data and supporting information to establish the product candidate's safety and efficacy for each desired indication, although Aequus may partially rely on public information or the FDA's prior approval of similar products. The NDA must also include significant information regarding the chemistry, manufacturing and controls for the product. The FDA may further inspect Aequus' manufacturing facilities to ensure that the facilities can manufacture Aequus' product candidates and Aequus' products, if and when approved, in compliance with the applicable regulatory requirements, as well as inspect Aequus' clinical trial sites to ensure that Aequus' studies are properly conducted. Obtaining approval of an NDA is a lengthy, expensive and uncertain process, and approval may not be obtained. Upon submission of an NDA, the FDA must make an initial determination that the application is sufficiently complete to accept the submission for filing. Aequus cannot be certain that any submissions will be accepted for filing and review by the FDA, or ultimately be approved. If the application is not accepted for review or approval, the FDA may require that Aequus conduct additional clinical or preclinical trials, or take other actions before it will reconsider Aequus' application. If the FDA requires additional studies or data, Aequus would incur increased costs and delays in the marketing approval process, which may require Aequus to expend more resources than Aequus has available. In addition, the FDA may not consider any additional information to be complete or sufficient to support approval.

Regulatory authorities outside of the U.S., such as in Canada, Europe and Japan and in emerging markets, also have requirements for approval of drugs for commercial sale with which Aequus must comply prior to marketing in those areas. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction

of Aequus' product candidates. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and obtaining regulatory approval in one country does not mean that regulatory approval will be obtained in any other country, or any regulatory approval obtained may not be as broad as what was obtained in other jurisdictions. However, the failure to obtain regulatory approval in one jurisdiction could have a negative impact on Aequus' ability to obtain approval in a different jurisdiction. Approval processes vary among countries and can involve additional product candidate testing and validation and additional administrative review periods. Seeking foreign regulatory approval could require additional non-clinical studies or clinical trials, which could be costly and time consuming. Foreign regulatory approval may include all of the risks associated with obtaining FDA approval. For all of these reasons, Aequus may not obtain foreign regulatory approvals on a timely basis, if at all.

The process to develop, obtain regulatory approval for and commercialize product candidates is long, complex and costly both inside and outside of the U.S., and approval is never guaranteed. Whether regulatory approval will be granted is unpredictable and depends upon numerous factors, including, to some extent, the discretion of the regulatory authorities. For example, governing legislation, approval policies, regulations, regulatory policies, or the type and amount of pre-clinical and clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. It is possible that none of our existing or future product candidates will ever obtain regulatory approval, even if we expend substantial time and resources seeking such approval.

Even if Aequus' product candidates were to successfully obtain approval from regulatory authorities, any such approval might significantly limit the approved indications for use, including more limited patient populations, require that precautions, contraindications or warnings be included on the product labeling, including black box warnings, require expensive and time-consuming post-approval clinical studies, REMS or surveillance as conditions of approval, or, through the product label, the approval may limit the claims that Aequus may make, which may impede the successful commercialization of Aequus' product candidates. Following any approval for commercial sale of Aequus' product candidates, certain changes to the product, such as changes in manufacturing processes and additional labeling claims, as well as new safety information, will be subject to additional FDA notification (and similar requirements outside the U.S.), or review and approval. Also, regulatory approval for any of Aequus' product candidates may be withdrawn. If Aequus is unable to obtain regulatory approval for Aequus' product candidates in one or more jurisdictions, or any approval contains significant limitations, Aequus' ability to market to Aequus' full target market will be reduced and Aequus' ability to realize the full market potential of Aequus' product candidates will be harmed. Furthermore, Aequus may not be able to obtain sufficient funding or generate sufficient revenue and cash flows to continue or complete the development of any of Aequus' current or future product candidates.

As an organization, Aequus has never submitted an IND or NDA in the United States or an NDS in Canada before, and may be unable to do so for Aequus' potential products or any other future products Aequus develops.

Other than AQS1301, all of Aequus' internal product candidates are currently at the pre-clinical stage. Aequus' internal product candidates still must undergo all levels of registration clinical trials. The conduct of registration clinical trials and the submission of a successful IND/NDA in the United States or CTA/NDS in Canada is a complicated process. As an organization, Aequus has not conducted a registration clinical trial before and has limited experience in preparing, submitting and prosecuting regulatory filings. Aequus also has had limited interactions with the TPD, FDA and similar regulatory agencies in other jurisdictions and has not discussed Aequus' current clinical trial designs or implementation with the TPD, FDA or similar regulatory agencies. Consequently, even if Aequus' initial clinical trials are successful, Aequus may be unable to successfully and efficiently execute and complete necessary clinical trials in a way that leads to NDA/NDS submission and approval of Aequus' proposed products or any other future product candidate Aequus may develop. Aequus may require more time and incur greater costs than Aequus' competitors and may not succeed in obtaining regulatory approvals of products that Aequus develops. Failure to commence or complete, or delays in, Aequus' planned clinical trials, would prevent Aequus from or delay Aequus in commercializing Aequus' proposed products or any other future product candidate Aequus develops.

Failure can occur at any stage of clinical development. If the clinical trials for AQS1301 or any of Aequus' potential future product candidates are unsuccessful, Aequus could be required to abandon development of such product.

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. A failure of one or more clinical trials can occur at any stage of testing for a variety of reasons. The outcome of preclinical testing and early clinical trials may not be predictive of the outcome of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. For example, adverse events may occur or other risks may be discovered in Aequus' expected Phase 1 Bioequivalence clinical trial for AQS1301 that could cause Aequus to suspend or terminate the clinical trial. In some instances, there can be significant variability in safety or efficacy results between different trials of the same product candidate due to numerous factors, including changes in or adherence to trial protocols, differences in size and type of the subject populations and the rates of dropout among clinical trial subjects. Aequus' future clinical trial results therefore may not demonstrate safety and efficacy sufficient to obtain regulatory approval for its product candidates. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Any future clinical trials Aequus may undertake may not be successful.

Flaws in the design of a clinical trial may not become apparent until the clinical trial is well-advanced. The Company has never conducted a clinical trial before and may be unable to design and execute clinical trials to support regulatory approval of its product candidates. In addition, clinical trials often reveal that it is not practical or feasible to continue development efforts for a product candidate.

Aequus may voluntarily suspend or terminate its proposed clinical trials if at any time it believes that they present an unacceptable risk to subjects. Furthermore, regulatory agencies, IRBs or similar research ethics boards, or data safety monitoring boards may at any time order the temporary or permanent discontinuation of Aequus' proposed clinical trials or request that Aequus cease using certain investigators in the clinical trials if such regulatory agencies or boards believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to subjects.

If the results of the proposed clinical trials for Aequus' current product candidates or clinical trials for any future product candidates do not achieve the primary efficacy endpoints or demonstrate unexpected safety issues, the prospects for approval of Aequus' product candidates will be materially adversely affected. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials have failed to achieve similar results in later clinical trials, including longer-term trials, or have failed to obtain regulatory approval of their product candidates. Many compounds that initially showed promise in clinical trials or earlier preclinical studies have later been found to cause undesirable or unexpected adverse effects that have prevented further development of the compound. Aequus' planned clinical trials for its primary product candidate, AQS1301, may not produce the results that Aequus expects, or the TPD, FDA or similar regulatory agencies in other jurisdictions may interpret the data differently than Aequus does.

In addition to the circumstances noted above, Aequus may experience numerous unforeseen events that could cause its proposed clinical trials to be delayed, suspended or terminated, or which could delay or prevent Aequus' ability to receive regulatory approval for or commercialize any of its product candidates, including:

- Clinical trials of Aequus' product candidates may produce negative or inconclusive results, and Aequus may decide, or regulators may require Aequus, to conduct additional clinical trials or implement a clinical hold;

- The number of subjects required for clinical trials of Aequus' product candidates may be larger than Aequus currently anticipates, enrollment in these clinical trials may be slower than it anticipates or participants may drop out of these clinical trials at a higher rate than it anticipates;

- Aequus' third party CRO, or study sites may fail to comply with regulatory requirements or the clinical trial protocol, or meet their contractual obligations to Aequus in a timely manner, or at all;

- Regulators or IRBs (or similar research ethics boards) may not authorize Aequus or Aequus' investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site or amend a trial protocol;

- Aequus may have delays in reaching or fail to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites and Aequus' CRO;

- Aequus may have delays in adding new investigators or clinical trial sites, or it may experience a withdrawal of clinical trial sites;

- Aequus may elect or be required to suspend or terminate clinical trials of its product candidates based on a finding that the subjects are being exposed to health risks or due to other reasons;

- The cost of clinical trials for Aequus' product candidates may be greater than it anticipates;

- The supply or quality of Aequus' product candidates or other materials necessary to conduct clinical trials of Aequus' product candidates may be insufficient or inadequate;

- There may be changes in government regulations or administrative actions;

- Aequus' product candidates may have undesirable adverse effects or other unexpected characteristics;

- Aequus may not be able to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;

- Aequus may not be able to demonstrate that a product candidate provides an advantage over current standards of care or future competitive therapies in development; and

- There may be changes in the approval policies or regulations that render Aequus' data insufficient for approval.

If Aequus elects or is required to suspend or terminate a clinical trial for any of its product candidates, or its product candidate development is otherwise delayed, Aequus' development costs may increase, its commercial prospects will be adversely impacted, any periods during which it may have the exclusive right to commercialize its product candidates may be shortened and Aequus' ability to generate product revenues may be delayed or eliminated.

Aequus expects to conduct additional clinical trials in the future for AQS1301 and its other product candidates. Subject enrollment, which is a significant factor in the timing of clinical trials, is affected by a variety of factors, including the following:

- Size and nature of the subject population;

- Proximity of subjects to clinical sites and the number of sites;

- Effectiveness of publicity created by clinical trial sites regarding the trial;

- Eligibility and exclusion criteria for the trial;

- Design of the clinical trial, including factors such as frequency of required assessments, length of the study and ongoing monitoring requirements;

- Competing clinical trials;

- Clinician and subject perceptions as to the potential advantages or disadvantages of the product candidate being studied in relation to other available therapies, including any products that may be approved for the indications Aequus is investigating;

- Subjects' ability to comply with the specific instructions related to the trial protocol, proper documentation and use of the drug product;

- Inability to obtain or maintain subject informed consents; and

- Risk that enrolled subjects will drop out before completion.

Furthermore, Aequus currently expects to rely on a CRO and clinical trial sites to ensure the proper and timely conduct of its clinical trials, and while Aequus may have agreements governing their committed activities, Aequus has limited influence over their actual performance. Additionally, the CRO and clinical trial sites may have business, regulatory, personnel or other issues that keep Aequus from satisfactorily completing Aequus' clinical trials. Any delays or unanticipated problems during clinical trials, such as additional monitoring of clinical trial sites, slower than anticipated enrollment in Aequus' clinical trials or subjects dropping out of or being excluded from participation in its clinical trials at a higher rate than Aequus anticipates, could increase Aequus' costs, slow down its product development and approval process and harm its business.

Aequus may in the future conduct clinical trials for its internal product candidates in sites outside the U.S. and the FDA may not accept data from trials conducted in such locations.

Aequus may in the future choose to conduct one or more of Aequus' clinical trials outside the U.S. Although the FDA may accept data from clinical trials conducted outside the U.S., acceptance of this data is subject to certain conditions imposed by the FDA. This same comment applies to other jurisdictions. For example, the clinical trial must be well designed and conducted and performed by qualified investigators in accordance with ethical principles. The study population must also adequately represent the U.S. population, and the data must be applicable to the U.S. population and U.S. medical practice in ways that the FDA deems clinically meaningful. Generally, the patient population for any clinical studies conducted outside of the U.S. must be representative of the population for whom Aequus intends to label the product in the U.S. In addition, while these clinical trials are subject to the applicable local laws, FDA acceptance of the data will be dependent upon its determination that the studies also complied with all applicable U.S. laws and regulations. There can be no assurance the FDA will accept data from trials conducted outside of the U.S. If the FDA chooses to not accept Aequus' data collected outside the U.S., it would likely result in the need for additional trials, which would be costly and time-consuming and delay or permanently halt Aequus' development of its proposed products or any future product candidates.

Aequus may be required to conduct clinical trials for Topiramate XR and Oxcarbazepine XR since Health Canada may not accept the same data packages previously submitted to FDA for commercialization in the U.S.

Aequus may be required to conduct one or more of clinical studies in Canada for Topiramate XR or Oxcarbazepine XR. Although the FDA has approved these products for marketing in the U.S., Health Canada may have different regulatory requirements for Canadian approval. For example, the studied population must adequately represent the Canadian population, and the data must be applicable to the Canadian population and Canadian medical practice in ways that Health Canada deems clinically meaningful. Generally, the patient population for any clinical studies conducted outside of Canada must be representative of the population for whom Aequus intends to label the product in Canada. There can be no assurance Health Canada will fully accept data used for U.S. approval purposes. If Health

Canada chooses to not fully accept this data, it may result in the need for additional studies or data in Canada, which would be costly and time-consuming and delay or permanently halt Aequus' commercialization of these products.

Regulatory approval may be substantially delayed or may not be obtained for one or all of Aequus' product candidates if regulatory authorities require additional time or studies to assess the safety and efficacy of its product candidates.

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 internal 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, including:

- Aequus' inability to obtain sufficient funds required for a clinical trial;
- Regulatory requests for additional analyses, reports, data, non-clinical and preclinical studies and clinical trials;
- Regulatory questions regarding interpretations of data and results and the emergence of new information regarding Aequus' product candidates or other products;
- Clinical holds, other regulatory objections to commencing or continuing a clinical trial or the inability to obtain regulatory approval to commence a clinical trial in countries that require such approvals;
- Failure to reach agreement with the TPD, FDA or other similar regulatory agencies regarding the scope or design of Aequus' clinical trials;
- Aequus' inability to enroll or retain a sufficient number of subjects who meet the inclusion and exclusion criteria in its clinical trials;
- Aequus' inability to conduct its clinical trials in accordance with regulatory requirements or its future clinical trial protocols;
- Unfavorable or inconclusive results of clinical trials and supportive non-clinical studies, including unfavorable results regarding safety or efficacy of Aequus' product candidates during clinical trials;
- Failure to meet the level of statistical significance required for approval;
- Any determination that a clinical trial presents unacceptable health risks to subjects;
- Lack of adequate funding to commence or complete Aequus' clinical trials due to unforeseen costs or other business decisions;
- Aequus' inability to reach agreements on acceptable terms with prospective CROs and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

- Aequus' inability to identify and maintain a sufficient number of sites, many of which may already be engaged in other clinical trial programs, including other clinical trials for the same indications targeted by its product candidates;

- Aequus' inability to obtain approval from IRBs or similar research ethics boards to conduct clinical trials at their respective sites;

- Aequus' inability to timely obtain from Aequus' third party manufacturer sufficient quantities or quality of the product candidate or other materials required for a clinical trial;

- Aequus may be unable to obtain approval for the manufacturing processes or facilities of the third party manufacturer with whom Aequus contract for clinical and commercial supplies;

- Aequus may have insufficient funds to pay the significant user fees required by the TPD, FDA or regulatory authorities in other jurisdictions upon the filing of an NDA/NDS or analogous applications; and

- Aequus may have difficulty in maintaining contact with subjects in any future clinical trial, resulting in incomplete data.

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.

Aequus' product candidates may have undesirable adverse effects, which may delay or prevent regulatory approval or, if approval is received, require Aequus' products, if any, to be taken off the market, require them to include safety warnings or otherwise limit their sales.

Unforeseen adverse effects from any of Aequus' product candidates could arise either during clinical development or, if approved, after the approved product has been marketed.

Any undesirable adverse effects that may be caused by Aequus' product candidates could interrupt, delay or halt clinical trials and could result in more restrictive labeling or the denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, and in turn prevent Aequus from commercializing its product candidates and generating revenues from their sale. Adverse effects could also impact subject recruitment or the ability or willingness of enrolled subjects to complete the trial, or result in product liability claims. Any of these occurrences may harm Aequus' business, financial condition and prospects significantly. Certain types of unexpected adverse events for atypical antipsychotic class drugs may also impact the perception of Aequus' product and may result in additional regulatory obligations and/or labeling changes.

In addition, if any of Aequus' product candidates receive regulatory approval and Aequus or others later identify undesirable adverse effects caused by the product, Aequus could face one or more of the following consequences:

- Aequus may suspend marketing of, withdraw or recall the product;

- Regulatory authorities may require the addition of labeling statements, such as a black box warning or a contraindication, or other labeling changes;

- Regulatory authorities may withdraw their approval of the product;

- Regulatory authorities may seize the product or seek an injunction against its manufacture or distribution;

- The TPD, FDA or other regulatory authorities may issue safety alerts, 'Dear Healthcare Provider' letters, press releases or other communications containing warnings about the product;

- The FDA may require the establishment or modification of a REMS or a comparable regulatory authority in Canada or other jurisdictions may require the establishment or modification of a similar strategy that may, for instance, require Aequus to issue a medication guide outlining the risks of such adverse effects for distribution to patients, or restrict distribution of the product, if and when approved, and impose burdensome implementation requirements on Aequus;

- Aequus may be required to conduct additional trials;

- Aequus may be required to change the way that the product is administered, conduct additional clinical trials or recall the product;

- Aequus may be subject to litigation or product liability claims, fines, injunctions or criminal penalties;

- Regulatory authorities may impose additional restrictions on marketing and distribution of the product; and

- Aequus' reputation may suffer.

Any of these events could prevent Aequus from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing such product, which in turn could delay or prevent Aequus from generating significant revenues from its sale.

Aequus' development and commercialization strategy for AQS1301 depends, in part, upon the FDA's prior findings regarding the safety and efficacy of aripiprazole based on data not developed by Aequus, but upon which the FDA may rely in reviewing Aequus' NDA.

The *U.S. Hatch-Waxman Act* added Section 505(b)(2) to the FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from clinical trials not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The FDA interprets Section 505(b)(2) of the FDCA, for the purposes of approving an NDA, to permit the applicant to rely, in part, upon published literature or the FDA's previous findings of safety and efficacy for an approved product. The FDA may also require companies to perform additional clinical trials or measurements to support any deviation from the previously approved product. The FDA may then approve the new product candidate for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant. The label, however, may require all or some of the limitations, contraindications, warnings or precautions included in the reference product's label, including a black box warning, or may require additional limitations, contraindications, warnings or precautions. Aequus anticipates submitting an NDA for AQS1301 under Section 505(b)(2) and as such the NDA will rely, in part, on the FDA's previous findings of safety and efficacy for aripiprazole. Even though Aequus may be able to take advantage of Section 505(b)(2) to support potential U.S. approval for AQS1301, the FDA may require Aequus to perform additional clinical trials or measurements to support approval. In addition, notwithstanding the approval of many products by the FDA pursuant to Section 505(b)(2), over the last few years, some pharmaceutical companies and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA changes its interpretation of Section 505(b)(2), or if the FDA's interpretation is successfully challenged in court, this could delay or even prevent the FDA from approving any Section 505(b)(2) NDAs that Aequus may submit. Such a result could require Aequus to conduct additional testing and costly clinical trials, which could substantially delay or prevent the approval and launch of Aequus' product candidates, including AQS1301.

Risks Related to Aequus' Financial Position and Need for Capital

Aequus has never been profitable. Currently, Aequus has no internal products approved for commercial sale and has a limited history of generating revenue by promoting products of a third party. Aequus does not expect profitability in the next two years and may never become profitable.

Aequus has never been profitable. Aequus does not expect to be profitable for at least the next two year and may never be profitable. Aequus has no internal products approved for commercial sale and to date has a limited history of

generating revenue by promoting tacrolimus IR, a product produced by a third party. Aequus' ability to generate additional revenue and become profitable depends upon Aequus' ability to successfully complete the development of AQS1301 or its other internal product candidates, and obtain the necessary regulatory approvals for AQS1301, its internal product candidates, Topiramate XR or Oxcarbazepine XR. Aequus has been engaged in developing AQS1301 since its inception. To date, Aequus has not generated any revenue from AQS1301 or its licensed products, Topiramate XR and Oxcarbazepine XR. Aequus may never be able to obtain regulatory approval for the marketing of Topiramate XR, Oxcarbazepine XR or its internal product candidates. Further, even if Aequus is able to gain approval for and commercialize its own product candidates, there can be no assurance that Aequus will generate significant revenues or ever achieve profitability. Aequus' ability to generate product revenue depends on a number of factors, including Aequus' ability to:

- Successfully complete clinical development of, and receive regulatory approval for, Aequus' product candidates;
- Set an acceptable price for Aequus' products, if approved, and obtain adequate coverage and reimbursement from third party payors;
- Obtain commercial quantities of Aequus' products, if approved, at acceptable cost levels; and
- Successfully market and sell Aequus' products, if approved, in Canada, the U.S. and in other foreign jurisdictions.

In addition, because of the numerous risks and uncertainties associated with product candidate development, Aequus is unable to predict the timing or amount of increased expenses, or when or if Aequus will be able to achieve or maintain profitability. In addition, Aequus' expenses could increase beyond Aequus' current expectations if Aequus is required by the TPD, FDA or other regulatory authorities to perform studies in addition to those that Aequus currently anticipates. Even if Aequus' product candidates are approved for commercial sale, Aequus anticipates incurring significant costs associated with the commercial launch of these products.

Aequus' ability to become and remain profitable depends on its ability to generate additional revenue. Even if Aequus is able to generate additional revenues from the sale of Aequus' internal product candidates or from Topiramate XR or Oxcarbazepine XR, if approved, Aequus may not become profitable and may need to obtain additional funding to continue operations. If Aequus fails to become profitable or obtain additional funding, or is unable to sustain profitability on a continuing basis, then Aequus may be unable to continue its operations at planned levels and be forced to reduce operations. Even if Aequus does achieve profitability, Aequus may not be able to sustain or increase profitability on a quarterly or annual basis. Aequus' failure to become and remain profitable would decrease the value of Aequus and could impair Aequus' ability to raise capital, expand Aequus' business or continue Aequus' operations. A decline in the value of Aequus could also cause you to lose all or part of your investment.

Aequus has incurred operating losses in each year since its inception and expects to continue to incur substantial losses for the foreseeable future.

Aequus is primarily a developmental stage life-sciences company with a limited operating history. Investment in pharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval or become commercially viable. Aequus does not have any internal products approved by regulatory authorities for marketing or commercial sale and has not generated any revenue from product sales to date, and Aequus continues to incur significant research, development and other expenses related to ongoing operations. As a result, Aequus is not profitable and has incurred losses in every financial reporting period since Aequus' inception on January 3, 2013. As of December 31, 2016, Aequus had an accumulated deficit since inception of $13,863,935.

Aequus expects to continue to incur significant expenses and operating losses for the foreseeable future. Aequus anticipates these losses to increase as Aequus continue the R&D of, and seek regulatory approvals for any of Aequus' future product candidates, and potentially begin to commercialize any products that may achieve regulatory approval. Aequus may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may

adversely affect Aequus' financial condition. The size of Aequus' future net losses will depend, in part, on the rate of future growth of Aequus' expenses and Aequus' ability to generate additional revenues. Aequus' prior losses and expected future losses have had and will continue to have an adverse effect on Aequus' financial condition. If any future product candidates fail in clinical trials or do not gain regulatory approval, or if approved, fail to achieve market acceptance, Aequus may never become profitable. Even if Aequus achieves profitability in the future, Aequus may not be able to sustain profitability in subsequent periods.

If Aequus fails to obtain the capital necessary to fund Aequus' operations, Aequus may be unable to obtain regulatory approval of AQS1301, Topiramate XR, Oxcarbazepine XR or its other product candidates.

Based on Aequus' current operating plans, Aequus believes that Aequus' cash and cash equivalents will be sufficient to meet Aequus' anticipated operating needs until the second quarter of 2018. Aequus' cash and cash equivalents were $473,242 as of December 31, 2017 and $4,059,367 on March 31, 2017. Aequus anticipates requiring additional capital to fund operating needs thereafter. Aequus may also need to raise additional funds sooner if it chooses to expand more rapidly than it presently anticipates.

Aequus will need to obtain additional financing to fund Aequus' operations and, if unable to obtain such financing, Aequus may be unable to complete the development or commercialization of Aequus' product candidates.

Aequus' operations have consumed substantial amounts of cash since inception. Aequus will need to obtain additional financing to fund Aequus' future operations, including completing the development and commercialization of Aequus' product candidates. Aequus will need to obtain additional financing to conduct additional trials for the approval of Aequus' product candidates if requested by regulatory authorities, and to complete the development of any additional product candidates Aequus might acquire. Moreover, Aequus' fixed expenses such as rent and other contractual commitments are substantial and are expected to increase in the future.

Aequus' future funding requirements will depend on many factors, including, but not limited to:

- Progress, timing, scope and costs of Aequus' proposed clinical trials, including the ability to timely enroll subjects in Aequus' planned and potential future clinical trials;
- Time and cost necessary to obtain regulatory approvals that may be required by regulatory authorities;
- Aequus' ability to successfully partner and commercialize Aequus' product candidates, if approved;
- Aequus' ability to commercialize third party products in Canada that the Company has acquired or licensed;
- Amount of sales and other revenues from product candidates that Aequus may commercialize, if any, including the selling prices for such potential products and the availability of adequate third-party coverage and reimbursement;
- Terms and timing of any potential future collaborations, licensing or other arrangements that Aequus may establish;
- Cash requirements of any future acquisitions or the development of other product candidates;
- The costs of operating as a public company;
- Time and cost necessary to respond to technological and market developments; and
- Costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

Until Aequus can generate a sufficient amount of revenue, Aequus may finance future cash needs through public or private equity offerings, license agreements, debt financings, collaborations, strategic alliances and marketing or

distribution arrangements. Aequus believes that its existing cash and cash equivalents will be sufficient to fund Aequus' projected operating requirements until the second quarter of 2018. Aequus expects that these funds will not be sufficient to enable Aequus to complete all necessary development and commercial approval regulatory processes of its internal product candidates or commercially launch Topiramate XR, Oxcarbazepine XR, AQS1301 or Aequus' other product candidates. Accordingly, Aequus will be required to obtain further funding through other public or private offerings, debt financing, collaboration or licensing arrangements or other sources. Adequate additional funding may not be available to Aequus on acceptable terms, or at all. If Aequus is unable to raise capital when needed or on attractive terms, Aequus would be forced to delay, reduce or eliminate Aequus' R&D programs or future commercialization efforts. Aequus may seek to access the public or private capital markets whenever conditions are favorable, even if Aequus does not have an immediate need for additional capital at that time. In addition, if Aequus raises additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, Aequus may have to relinquish valuable rights to Aequus' technologies, future revenue streams or product candidates or to grant licenses on terms that may not be favorable to Aequus.

Aequus' forecast of the period of time through which its financial resources will be adequate to support Aequus' operating requirements is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed elsewhere in this "*Risk Factors*" section. Aequus has based this estimate on a number of assumptions that may prove to be incorrect, and changing circumstances beyond Aequus' control may cause Aequus to consume capital more rapidly than Aequus currently anticipates. Aequus' inability to obtain additional funding when required could seriously harm Aequus' business.

Aequus currently generates revenue from a single promotional services agreement.

The Company has entered into the Promotional Services Agreement with an unnamed partner in Canada to be its exclusive promotion and marketing partner in the Canadian market for tacrolimus IR and Vistitan. The Promotional Services Agreement is currently the Company's sole source of revenue, the loss of which for any reason could have a material adverse effect on Aequus' business, financial condition and results of operations.

Raising additional capital may cause dilution to Aequus' existing shareholders or restrict Aequus' operations.

Aequus may seek additional capital through a combination of private and public equity offerings, debt financings and strategic collaborations. The sale of additional equity or convertible debt securities could result in the issuance of additional shares of in the capital of Aequus and could result in dilution to Aequus' shareholders. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on Aequus' ability to incur additional debt, limitations on Aequus' ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact Aequus' ability to conduct Aequus' business. Aequus cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to Aequus, if at all. If Aequus is unable to raise additional capital in sufficient amounts or on terms acceptable to Aequus, Aequus will be prevented from pursuing R&D efforts. This could harm Aequus' business, operating results and financial condition and cause the price of Aequus' securities to fall, including the price of the Company's Common Shares.

Aequus is a development stage company which may make it difficult for you to evaluate the success of Aequus' business to date and to assess Aequus' future viability.

Aequus is a development stage company. Aequus was incorporated and commenced active operations in 2013. Aequus' operations to date have been limited to organizing and staffing the Company, business planning, raising capital, developing Aequus' product candidates and, most recently, building its commercial arm. Aequus has not yet demonstrated its ability to successfully complete clinical trials for, obtain regulatory approval of or manufacture on a commercial scale any of Aequus' product candidates, or arrange for a third party to do so on Aequus' behalf, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions about Aequus' future success or viability may not be as accurate as they could be if Aequus had a longer operating history.

In addition, as a development stage company, Aequus may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. Aequus will need to transition from a company with a focus on product candidate development to a company capable of supporting commercial activities. Aequus may not be successful in such a transition.

Aequus has a history of negative operating cash flow and may continue to experience negative operating cash flow.

Aequus had negative operating cash flow for every financial reporting period since its inception on January 3, 2013. Aequus anticipates that it will continue to have negative operating cash flow until such time, if at all, that profitable commercial production is achieved with AQS1301, Topiramate XR, Oxcarbazepine XR or Aequus' other internal product candidates. To the extent that Aequus has negative operating cash flow in future periods, Aequus may need to allocate a portion of its cash reserves to fund such negative cash flow. Aequus may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable to Aequus.

Risks Relating to the Commercialization of Aequus' Product Candidates and Marketing Products Produced by Third Parties

Aequus has a limited history of marketing drug product produced by third parties. Aequus' current salesforce and marketing infrastructure may be unable to generate significant revenue to cover its commercial expenses.

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.

Aequus is substantially dependent on forming a third party partnership for the commercial success of AQS1301.

Even if Aequus is able to obtain regulatory approvals for Aequus' product candidates, the success of those products is dependent upon achieving and maintaining market acceptance. New product candidates that appear promising in development may fail to reach the market or may have only limited or no commercial success. Levels of market acceptance for Aequus' products could be impacted by several factors, many of which are not within Aequus' control, including but not limited to:

- Efficacy, safety and other potential advantages of Aequus' product candidates in relation to alternative treatments;
- Relative convenience and ease of administration of Aequus' product candidates;
- Availability of adequate coverage or reimbursement of Aequus' product candidates by third parties, such as insurance companies and other payors, and by government healthcare programs, including, in the U.S., Medicare, Medicaid and state health insurance exchanges and comparable government health-care programs in other jurisdictions;
- Prevalence and severity of adverse events associated with Aequus' product candidates;
- Cost of Aequus' product candidates in relation to alternative treatments, including generic products;

- Extent and strength of Aequus' third-party manufacturer and supplier support;

- Extent and strength of Aequus' marketing and distribution support;

- Limitations or warnings contained in Aequus' potential product's labeling as approved or required by the TPD, FDA or other regulatory agencies; and

- Distribution and use restrictions imposed by the TPD, FDA or other regulatory agencies or to which Aequus agree as part of a mandatory REMS or voluntary risk management plan.

For example, if AQS1301 is approved by the FDA/TPD, physicians and patients may not be immediately receptive to a transdermal antipsychotic system, as opposed to a pill or any other method, and may be slow to adopt it as an accepted treatment for its indicated use. In addition, even though Aequus believes AQS1301 has significant advantages over other treatment options, because no head-to-head trials comparing AQS1301 to the competing approved products have been conducted, the prescribing information approved by the FDA/TPD may not contain claims that AQS1301 is safer or more effective than the currently approved products, or other claims that may be necessary for successful marketing of AQS1301. Accordingly, Aequus will not be permitted to promote AQS1301, if approved, for any comparative advantages to the currently marketed products. The availability of numerous inexpensive generic forms of antipsychotic products may also limit acceptance of AQS1301 among physicians, patients and third party payors. If AQS1301 does not achieve an adequate level of acceptance among physicians, patients and third party payors, Aequus may not generate significant product revenues or become profitable.

It will be difficult for Aequus to profitably sell AQS1301, Topiramate XR or Oxcarbazepine XR, if such products are approved, as well as tacrolimus IR, Vistitan or any other product that Aequus obtains marketing approval for in the future, if coverage and reimbursement for such product is limited.

Market acceptance and sales of AQS1301, Topiramate XR or Oxcarbazepine XR, if such products are approved, as well as tacrolimus IR, Vistitan or any other product that Aequus obtains marketing approval for in the future, will depend on coverage and reimbursement policies and may be affected by future healthcare reform measures. Government authorities and third party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels for approved medications. A primary trend in the U.S. and Canadian healthcare industry is cost containment. Government authorities and these third party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Some payors also require manufacturers to enter into agreements with them in order for drugs to be reimbursed by the payor, and the agreements may contain cost sharing or other onerous provisions. Also, current conditions and rules relating to the listing submissions to public and private formulary listings may change or become more onerous in the future. If Aequus fails to achieve the listing of our products, it will affect the physicians' decisions regarding the use of our products. Aequus cannot be sure that coverage or reimbursement will be available for AQS1301, Topiramate XR or Oxcarbazepine XR, if such products are approved, as well as tacrolimus IR, Vistitan or any other product that Aequus obtains marketing approval for in the future and, if coverage is available, Aequus cannot be sure of the level of reimbursement. Reimbursement may impact the demand for, or the price of, AQS1301, Topiramate XR or Oxcarbazepine XR, if such products are approved, as well as tacrolimus IR, Vistitan and any other products that Aequus obtains marketing approval for and commercialize. Numerous generic products may be available at lower prices than branded therapy products, such as AQS1301, Topiramate XR and Oxcarbazepine XR, which may also reduce the likelihood and level of reimbursement for such products. If coverage and reimbursement are not available or are available only at limited levels, Aequus may not be able to successfully commercialize AQS1301, Topiramate XR or Oxcarbazepine XR, if such products are approved, as well as tacrolimus IR, Vistitan or any other product for which Aequus obtains marketing approval.

Aequus may be unable to enter into agreements with third parties to market and sell AQS1301, if approved, for commercialization outside of Canada.

Aequus is seeking to engage a third party partner to commercialize AQS1301 and any other internal product candidate outside of Canada. If Aequus is successful in entering into a commercialization agreement for rights outside of Canada,

Aequus may have limited or no control over sales, marketing and distribution activities of these third parties. Aequus' future revenues may depend on the success of the efforts of these third parties. To the extent that Aequus relies on, or partners with, third parties to commercialize AQS1301, if approved, or any other product candidate for which Aequus obtains marketing approval in the future, Aequus may receive less revenue than if Aequus commercialized these products itself. In addition, Aequus would have less control over the sales efforts of any other third parties involved in Aequus' commercialization efforts. In the event that Aequus is unable to partner with a third party marketing and sales organization, Aequus' ability to generate product revenues may be limited in the U.S. or other jurisdictions in which its product candidates may be approved for sale, if any.

A variety of risks associated with potential international business relationships could materially adversely affect Aequus' business.

Aequus may enter into agreements with third parties for the development and commercialization of AQS1301 and possibly other product candidates in international markets. If Aequus does so, Aequus would be subject to additional risks related to entering into international business relationships, including:

- Differing regulatory requirements in foreign countries including, among others, requirements relating to drug approvals, pricing, reimbursement and sales and marketing practices;
- Potentially reduced protection for intellectual property rights;
- The potential for so-called parallel importing, which is when a local seller, faced with higher local prices, opts to import goods from a foreign market with lower prices, rather than buying them locally;
- Unexpected changes in tariffs, trade barriers and regulatory requirements;
- Economic weakness, including inflation, or political instability in foreign economies and markets;
- Compliance with tax, employment, immigration and labor laws for employees traveling and working abroad;
- Foreign taxes;
- Foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other risks incident to doing business in another country;
- Workforce uncertainty in countries where labor unrest is more common than in the U.S.;
- Production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- Business interruptions resulting from geo-political actions, including war and terrorism, or natural disasters, including earthquakes, volcanoes, typhoons, floods, tsunamis, hurricanes and fires.

These and other risks may materially adversely affect Aequus' ability to develop and commercialize products in international markets and may harm Aequus' business.

Even if Aequus receives regulatory approval for AQS1301, Aequus still may not be able to successfully commercialize it and the revenue that Aequus generate from its sales, if any, may be limited.

The commercial success of AQS1301 in any indication for which Aequus obtains marketing approval from the TPD, FDA or other regulatory authorities will depend upon the antipsychotic market landscape as well as acceptance and uptake of AQS1301 by physicians, patients and third-party payors.

Risks related to the antipsychotic market landscape include:

- The prescription antipsychotic market could experience a decrease in growth or negative growth if fewer patients choose to use pharmaceutical intervention;
- The perceived safety of antipsychotics could be negatively affected by media reports of adverse effects and advertisements for class action lawsuits due to adverse effects;
- Price pressures from third-party payors, including managed care organizations and government-sponsored health systems, could limit Aequus' revenue;
- The proportion of the antipsychotic market comprised of generic products could continue to increase, making introduction of a branded transdermal antipsychotic difficult and expensive;
- Competition in the antipsychotic market could increase, with the introduction of new antipsychotics, including the potential of a new generic or branded alternative;
- Competition from generic antipsychotic products could increase as additional generic antipsychotics receive TPD or FDA approval, or approval from similar regulatory authorities in other jurisdictions;
- Implementation of the U.S. *Patient Protection and Affordable Care Act*, as amended by the *Healthcare and Education Reconciliation Act of 2010* or, collectively, the *Affordable Care Act* ("**ACA**"), and its effect on pharmaceutical coverage, reimbursement and pricing could limit Aequus' revenue;
- Access to the prescriber universe, particularly psychiatric physicians, could be limited, decreasing Aequus' ability to promote AQS1301 efficiently; and
- The presence of FDA mandated black box warnings on atypical antipsychotic packaging regarding increased mortality risk in the elderly and an increase in suicidal thoughts or behaviors in some children, teenagers and young adults.

The degree of acceptance and uptake of AQS1301, if approved, by physicians, patients and third-party payors will depend upon a number of factors, including:

- The level of effectiveness of AQS1301 demonstrated in Aequus' clinical trials;
- The incidence and severity of adverse effects associated with AQS1301;
- Limitations on use or warnings contained in approved labeling;
- Acceptability to patients of the appearance and feel of AQS1301;
- Willingness of patients to use a transdermal patch as their form of antipsychotic;
- The cost of AQS1301 to the patient, as compared to other antipsychotic products;
- Aequus' ability to obtain and maintain sufficient third party coverage or reimbursement for AQS1301 from private health insurers, government healthcare programs (including Medicare, Medicaid and 340B Clinics) and other third party payors; and
- The effectiveness of Aequus' or any future collaborators' sales and marketing strategies.

In addition, even if Aequus obtains regulatory approval for AQS1301, the timing of an approval may reduce Aequus' ability to commercialize AQS1301 successfully. For example, if the approval process takes too long, Aequus may miss market opportunities and give other companies the ability to develop competing products. Any regulatory approval Aequus ultimately obtains may be limited or subject to restrictions or post-approval commitments that render AQS1301 not commercially viable. For example, regulatory authorities may grant approval contingent on the performance of costly post-marketing clinical trials or other post-marketing commitments, including REMS, or may approve AQS1301 with a label that contains fewer, or more limited, indications than requested, warnings, precautions or contraindications, including black box warnings, and the label may not include the claims necessary or desirable for the successful commercialization of AQS1301. Any of the foregoing scenarios could materially harm the commercial prospects for AQS1301.

If AQS1301 is approved, but does not achieve an adequate level of acceptance by physicians, third-party payors and patients, Aequus may not generate sufficient revenue and Aequus may not be able to achieve or sustain profitability. The efforts of Aequus' future commercial partners, if any, to educate physicians, patients and third party payors on the benefits of AQS1301 may require significant resources and may never be successful. Even if Aequus is able to demonstrate and maintain a competitive advantage over Aequus' competitors and become profitable, if the market for antipsychotics fails to achieve expected future growth or decreases, Aequus may not generate sufficient revenue or sustain profitability.

The proportion of the antipsychotic market that is made up of generic products could continue to increase, making introduction of a branded antipsychotic difficult and expensive.

The proportion of the Canadian and U.S. market that is made up of generic products has been increasing over time. The first oral generic entry of Abilify™ (aripiprazole) was launched in April, 2015. It may be more difficult to introduce AQS1301, if approved, as a branded antipsychotic, at a price that will maximize Aequus' revenue and profits. Also, there may be additional marketing costs to introduce AQS1301 in order to overcome the trend towards generics and to gain access to reimbursement by payors. If Aequus is unable to introduce AQS1301 at a price that is commensurate with that of current branded antipsychotic products, or Aequus is unable to gain reimbursement from payors for AQS1301, or if patients are unwilling to pay any price differential between AQS1301 and a generic antipsychotic, Aequus' revenues will be limited.

Recently enacted and future legislation may increase the difficulty and cost for Aequus to obtain marketing approval of and to commercialize AQS1301 and may affect the prices Aequus may obtain.

In the U.S. and some other jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval for AQS1301 or any other product candidate, restrict or regulate post-approval activities and affect Aequus' ability to profitably sell AQS1301 or any other product candidate. For example, legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. Aequus does not know whether additional legislative changes will be enacted, whether the TPD or FDA's regulations, guidance or interpretations will change, or what the impact of such changes on the potential marketing approval of AQS1301, if any, may be. In addition, in the U.S., increased scrutiny by U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject Aequus to more stringent product labeling and post-marketing testing and other requirements.

In the U.S., in March 2010, then President Obama signed into law the ACA, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the healthcare industry and impose additional healthcare policy reforms. The ACA, among other things, increased the Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program for both branded and generic drugs, extended the rebate program to certain individuals enrolled in Medicaid managed care organizations, addressed new methodologies by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are line extension products and expanded the 340B drug discount program (excluding orphan drugs) to other entities. Further, the ACA imposed a significant annual tax on companies that manufacture or import branded

prescription drug products. Substantial new provisions affecting compliance have also been enacted, which may require Aequus to modify Aequus' business practices with regard to healthcare practitioners.

President Trump has recently publicly indicated an intent to lower healthcare costs through various potential initiatives. In addition, President Trump and other U.S. lawmakers have made statements about potentially repealing or replacing the ACA, although specific legislation for such a repeal or replacement has not yet been passed. While we are unable to predict what changes may ultimately be enacted, future changes could adversely impact our business.

In addition, other legislative changes have been proposed and adopted in the U.S. since the ACA was enacted. On August 2, 2011, the *Budget Control Act of 2011*, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013. On January 2, 2013, then President Obama signed into law the *American Taxpayer Relief Act of 2012*, which, among other things, further reduced Medicare payments to several types of providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. Aequus expects that additional federal healthcare reform measures will be adopted in the U.S. in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, and in turn could significantly reduce the projected value of Aequus' product candidates and reduce Aequus' profitability.

Moreover, the recently enacted U.S. *Drug Quality and Security Act* imposes new obligations related to product tracking and tracing on manufacturers of pharmaceutical products. Among the requirements of this new legislation, manufacturers will be required to provide certain information regarding the drug products they produce to individuals and entities to which product ownership is transferred, label drug product with a product identifier, and keep certain records regarding the drug product. The transfer of information to subsequent product owners by manufacturers will eventually be required to be done electronically. Manufacturers will also be required to verify that purchasers of the manufacturers' drug products are appropriately licensed. Further, under this new legislation, manufacturers will have drug product investigation, quarantine, disposition, and FDA and trading partner notification responsibilities related to counterfeit, diverted, stolen and intentionally adulterated products, as well as products that are the subject of fraudulent transactions or which are otherwise unfit for distribution such that they would be reasonably likely to result in serious health consequences or death.

There may be additional regulatory changes in Canada or other jurisdictions in the future that may adversely affect Aequus' development of its product candidates and its proposed operations should such product candidates be approved.

Third party coverage and reimbursement and healthcare cost containment initiatives and treatment guidelines may constrain Aequus' future revenues.

Significant uncertainty exists as to the coverage and reimbursement status of any product candidates for which we obtain regulatory approval. Aequus' ability to successfully market AQS1301, if approved, will depend in part on the level of coverage and reimbursement that government authorities, private health insurers and other organizations provide for AQS1301 and antipsychotics in general. Countries in which AQS1301 is sold through reimbursement schemes under national or provincial health insurance programs frequently require that manufacturers and sellers of pharmaceutical products obtain governmental approval of initial prices and any subsequent price increases. In certain countries, including the U.S., government-funded and private medical care plans can exert significant indirect pressure on prices. Aequus may not be able to sell AQS1301 profitably if adequate prices are not approved or coverage and reimbursement are unavailable or limited in scope. Increasingly, third-party payors attempt to contain healthcare costs in ways that are likely to impact Aequus' development of products including:

- Failing to approve or challenging the prices charged for healthcare products;

- Introducing reimportation schemes from lower-priced jurisdictions;

- Limiting both coverage and the amount of reimbursement for new therapeutic products, especially with respect to line extensions of existing drugs that are more expensive;

- Denying or limiting coverage for products that are approved by the regulatory agencies but are considered to be experimental, not medically necessary or investigational by third-party payors;

- Requiring a patient to receive prior authorization or requiring the product to be on an approved list or formulary; and

- Refusing to provide coverage when an approved product is used for off-label indications.

Risks Related to Manufacturing and Aequus' Reliance on Third Parties

Aequus has no manufacturing capacity and relies on third parties to manufacture their clinical and commercial supply. Aequus relies on Corium, Aequus' third party manufacturer, for the development and commercialization of Aequus' product candidate, AQS1301.

Aequus relies on Corium, Aequus' third party manufacturer, to produce clinical supplies of AQS1301, as well as Aequus' other transdermal product candidates. Aequus plans to continue relying on Corium for commercial supplies and samples of Aequus' transdermal product candidates, if approved. In addition, Aequus relies on its undisclosed partner for the manufacturing and supply of tacrolimus IR and Vistitan. Aequus plans to negotiate a manufacturing agreement with a third party to produce Topiramate XR and Oxcarbazepine XR on behalf of the Company for the Canadian market if commercial approval is obtained from Health Canada.

Aequus does not own or operate, and has no plans to establish, any manufacturing facilities for Aequus' product candidates. Aequus lacks the resources and capabilities to manufacture tacrolimus IR, Vistitan, Topiramate XR, Oxcarbazepine XR, AQS1301 or any of Aequus' product candidates on a clinical or commercial scale. The facilities used by any third party manufacturer, including Corium, must be approved by the FDA pursuant to inspections that will be conducted after submission of an NDA to the FDA, and similar regulatory inspections and approvals will be required where product candidates will be sold outside the U.S. Aequus does not control the manufacturing process of, and is completely dependent on, Aequus' contract manufacturing partners for compliance with the regulatory requirements, known as cGMPs, for manufacture of Aequus' product candidates and Aequus' products, if and when approved. If Corium or other contract manufacturers that Aequus may use cannot successfully manufacture material that conforms to Aequus' specifications and the strict regulatory requirements of the FDA or others, they will not be able to secure or maintain regulatory approval for their manufacturing facilities. In addition, Aequus has no control over the ability of Aequus' contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the TPD, FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of Aequus' product candidates or if it withdraws any such approval in the future, Aequus may need to find alternative manufacturing facilities, which would significantly impact Aequus' ability to develop, obtain regulatory approval for or market Aequus' product candidates, if approved. Moreover, if Aequus' contract manufacturer cannot successfully manufacture materials that conform to Aequus' specifications and the strict regulatory requirements of the TPD, FDA or others, Aequus may be subject to other regulatory enforcement action such as Warning Letters, Untitled Letters, recalls, product seizures, fines, imprisonment, consent decrees, refusal to permit import or export of the product and injunction against manufacture or distribution.

The machinery to produce the commercial supply of AQS1301 must be qualified and validated, which is time-consuming and expensive, and this machinery is located within one manufacturing site and is customized to the particular manufacturing specifications of AQS1301. If Corium is unable to qualify and validate this equipment in a timely manner, Aequus' ability to launch and commercialize AQS1301 will be compromised. If this customized equipment malfunctions at any time during the production process, the time it may take Corium to secure replacement parts, to undertake repairs and to revalidate the equipment and process could limit Aequus' ability to meet the commercial demand for AQS1301. This may increase the risk that the third party manufacturer may not manufacture

AQS1301 in accordance with the applicable regulatory requirements, that Aequus may not have sufficient quantities of AQS1301 or Aequus' other product candidates or that Aequus may not have such quantities at an acceptable cost, any of which could delay, prevent, or impair the commercialization of AQS1301, if approved, and the development of Aequus' other product candidates.

Although Aequus expects to have manufacturing agreements with Corium for the clinical and commercial supply of AQS1301, Corium and several of its suppliers of raw materials will be single source providers to Aequus for a significant period of time. In particular, we expect that Corium will manufacture AQS1301 using aripiprazole API and components that it purchases from third parties, most of which are single source suppliers of the applicable material. Aequus does not have any control over the process or timing of the acquisition of these raw materials by Corium. Although Aequus does not expect to begin any clinical trials unless Aequus believes it has a sufficient supply of a product candidate to complete the clinical trial, any significant delay in the supply of a product candidate, or the raw material components thereof, for an ongoing clinical trial due to the need to replace a third party manufacturer could considerably delay completion of Aequus' clinical trials, product testing and potential regulatory approval of Aequus' product candidates.

In addition, in the event AQS1301 is approved and achieves significant market share, Corium may not possess adequate manufacturing capabilities to meet market demand for AQS1301. If it becomes necessary to engage an additional third party manufacturer to produce AQS1301, Aequus may need to license certain manufacturing know-how from Corium, or Aequus' commercial supply will be limited while the new third-party manufacturer develops the necessary know-how to manufacture AQS1301.

Reliance on a third-party manufacturer subjects Aequus to risks that would not affect Aequus if Aequus manufactured the product candidates itself, including:

- Reliance on the third party for regulatory compliance and quality assurance;
- Reduced control over the manufacturing process for Aequus' product candidates;
- The possible breach of the manufacturing agreements by the third party because of factors beyond Aequus' control;
- The possibility of termination or nonrenewal of the agreements by the third party because of Aequus' breach of the manufacturing agreement or based on their own business priorities; and
- The disruption and costs associated with changing suppliers.

Aequus' product candidates may compete with other products and product candidates for access to manufacturing resources and facilities. There are a limited number of manufacturers that operate under cGMP requirements and that are both capable of manufacturing for Aequus and willing to do so. If Aequus' existing third-party manufacturer, or the third parties that Aequus may engage in the future to manufacture a product for commercial sale or for Aequus' clinical trials, should cease to continue to manufacture Aequus' product candidates for any reason, Aequus likely would experience delays in obtaining sufficient quantities of Aequus' product candidates for Aequus to meet commercial demand or to advance Aequus' clinical trials while Aequus identifies and qualifies replacement suppliers. If for any reason Aequus is unable to obtain adequate supplies of Aequus' product candidates or the drug substances used to manufacture them, it will be more difficult for Aequus to develop Aequus' product candidates and compete effectively.

Aequus' third-party manufacturer is subject to regulatory requirements, covering manufacturing, testing, quality control and record keeping relating to Aequus' product candidates, and subject to ongoing inspections by the regulatory agencies. In addition to the above-described regulatory actions, failures by Aequus' third-party manufacturer to comply with applicable regulations may result in long delays and interruptions to Aequus' manufacturing capacity while Aequus seek to secure another third-party manufacturer that meets all regulatory requirements.

Aequus expects to rely on third parties to conduct aspects of Aequus' clinical trials. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or comply with applicable regulatory requirements, Aequus may be delayed in obtaining or ultimately not be able to obtain marketing approval for Aequus' product candidates.

Aequus anticipates engaging a CRO for most aspects of Aequus' clinical trials, including trial conduct, data management, statistical analysis and electronic compilation of Aequus' NDA/NDS. Aequus may enter into agreements with CROs to obtain additional resources and expertise in an attempt to accelerate Aequus' progress on new or ongoing clinical and preclinical programs. Typically entering into relationships with CROs involves substantial cost and requires extensive management time and focus. In addition, typically there is a transition period between engagement of a CRO and the time the CRO commences work. As a result, delays may occur, which may materially impact Aequus' ability to meet Aequus' desired clinical development timelines and ultimately have a material adverse impact on Aequus' operating results, financial condition or future prospects.

As CROs are not Aequus' employees, Aequus cannot control whether or not they devote sufficient time and resources to Aequus' clinical trials for which they are engaged to perform, and whether they comply with the applicable regulatory requirements, known as cGCPs which are regulations and guidelines enforced by the TPD, FDA, the Competent Authorities of the Member States of the European Economic Area, and comparable foreign regulatory authorities for all of Aequus' product candidates, which include requirements related to the conduct of the study, subject informed consent, and IRB or similar research ethics board's approval. Regulatory authorities enforce these cGCPs through periodic inspections of trial sponsors, principal investigators and trial sites. Although Aequus may rely on third parties for the execution of Aequus' trials, Aequus is nevertheless responsible for ensuring that each of Aequus' studies is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards and Aequus' reliance on CROs does not relieve Aequus of Aequus' regulatory responsibilities. If Aequus or any of Aequus' CROs fail to comply with applicable cGCPs, the clinical data generated in Aequus' clinical trials may be deemed unreliable and the TPD, FDA, EMA or comparable foreign regulatory authorities may require Aequus to perform additional clinical trials before approving Aequus' marketing applications. Aequus cannot assure you that, upon inspection by a given regulatory authority, such regulatory authority will determine that any of Aequus' clinical trials complies with cGCP regulations. In addition, Aequus' clinical trials must be conducted with product candidate materials produced under cGMP regulations. Aequus' failure to comply with these regulations may require Aequus to discontinue or repeat clinical trials, which would delay the regulatory approval process. If the CROs Aequus engage do not successfully carry out their contractual duties or obligations, conduct the clinical trials in accordance with all regulatory requirements, or meet expected deadlines, or if they need to be replaced, or the quality or accuracy of the data they provide is compromised due to the failure to adhere to regulatory requirements or for other reasons, then Aequus' development programs may be extended, delayed or terminated, or Aequus may not be able to obtain marketing approval for or successfully commercialize Aequus' product candidates. Failure to comply with clinical trial regulatory requirements may further subject Aequus to regulatory action, including Warning Letters, Untitled Letters, adverse inspectional findings, clinical holds, fines and monetary penalties, imprisonment, injunction against manufacture or distribution and debarment. As a result, Aequus' financial results and the commercial prospects for Aequus' product candidates would be harmed and Aequus' costs would increase.

Any collaboration arrangements that Aequus may enter into in the future may not be successful, which could adversely affect Aequus' ability to develop and commercialize Aequus' product candidates.

Aequus may seek partnerships, collaborations and other strategic transactions to maximize the commercial potential of AQS1301, Aequus' other product candidates and Aequus' proprietary technologies in Canada, the U.S. and other territories throughout the world. Aequus may enter into such arrangements on a selective basis depending on the merits of retaining commercialization rights for itself as compared to entering into selective collaboration arrangements with leading pharmaceutical or biotechnology companies for AQS1301 and each of Aequus' other product candidates and technologies, both in the U.S. and internationally. Aequus faces competition in seeking appropriate collaborators. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement. Aequus may not be successful in Aequus' efforts to establish and implement collaborations or other alternative arrangements should Aequus choose to enter into such arrangements. The terms of any collaborations or other arrangements that Aequus may establish may not be favorable to Aequus.

Any future collaborations that Aequus enters into may not be successful. The success of Aequus' collaboration arrangements will depend heavily on the efforts and activities of Aequus' collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaborations.

Disagreements between parties to a collaboration arrangement regarding clinical development and commercialization matters could lead to delays in the development process or commercialization of Aequus' product candidates and, in some cases, termination of the collaboration arrangement. These disagreements can be difficult to resolve if neither of the parties has final decision making authority.

Collaborations with pharmaceutical or biotechnology companies and other third parties often are terminated or allowed to expire by the other party. Any such termination or expiration could adversely affect Aequus financially and could harm Aequus' business reputation.

Risks Related to Regulatory Matters Following Approval

Even if Aequus obtains marketing approval for AQS1301, Topiramate XR, Oxcarbazepine XR or any other product candidate, Aequus will be subject to ongoing obligations and extensive regulatory review, which may result in significant additional expense. Additionally, AQS1301, Topiramate XR, Oxcarbazepine XR or another product candidate could be subject to labeling and other restrictions, including withdrawal from the market, and Aequus may be subject to penalties if Aequus fails to comply with regulatory requirements or if Aequus experiences unanticipated problems with AQS1301, Topiramate XR, Oxcarbazepine XR or any other of its product candidates.

Even if Aequus obtains regulatory approval of AQS1301, Topiramate XR, Oxcarbazepine XR or another product candidate, the TPD, FDA or other regulatory authority may still impose significant restrictions on its indicated uses, including more limited patient populations, require that precautions, contraindications, or warnings be included on the product labeling, including black box warnings, or impose ongoing requirements for potentially costly and time-consuming post-approval studies, including Phase 4 clinical trials, and post-market surveillance to monitor safety and efficacy. Claims that Aequus may make may also be restricted through Aequus' approved labeling. In addition, any products for which Aequus receives regulatory approval or otherwise markets will be subject to ongoing regulatory requirements relating to the manufacturing, labeling, packaging, storage, distribution, import, export, safety surveillance, advertising, marketing promotion, recordkeeping, reporting of adverse events and other post-market information, and further development. These requirements include registration with the TPD, FDA or other regulatory authorities, listing of Aequus' drug products, payment of annual fees, as well as continued compliance with cGCPs for any clinical trials that Aequus conducts post-approval. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents. In the U.S., should the inspectional findings not be resolved to the FDA's satisfaction or should the finding rise to a sufficient level, the FDA may issue a Warning Letter or Untitled Letter, or take other regulatory action such as a product seizure, withdrawal of product approval, request for a recall, refusal to allow the import or export of the product, fines, injunction against manufacture or distribution, consent decrees or imprisonment. Similar inspections may also occur in other jurisdictions.

In the U.S., the FDA has the authority to require a REMS as part of an NDA or after approval, which may impose further requirements or restrictions on the information that patients must be provided, distribution or use of an approved drug, such as limiting prescribing to certain physicians or medical centers that have undergone specialized training, limiting treatment to patients who meet certain safe-use criteria or requiring treated patients to enroll in a registry, dispensing only under certain circumstances and special monitoring.

With respect to sales and marketing activities by Aequus or any future collaborative partner, advertising and promotional materials must comply with the FDA's rules in addition to other applicable federal and local laws in the U.S. and similar legal requirements in other countries. In the U.S., the distribution of product samples to physicians must comply with the requirements of the U.S. *Prescription Drug Marketing Act*. Application holders must notify the FDA, and depending on the nature of the change, obtain FDA pre-approval for product and manufacturing changes. Aequus may also be subject, directly or indirectly through Aequus' customers and partners, to various fraud and abuse laws, including, without limitation, the U.S. Anti-Kickback Statute, U.S. *False Claims Act* and similar state laws,

which impact, among other things, Aequus' proposed sales, marketing and scientific/educational grant programs. If Aequus participates in the U.S. Medicaid Drug Rebate Program, the Federal Supply Schedule of the U.S. Department of Veterans Affairs, or other government drug programs, Aequus will be subject to complex laws and regulations regarding reporting and payment obligations. All of these activities are also potentially subject to U.S. federal and state consumer protection and unfair competition laws. Similar requirements exist in many of these areas in other countries.

In addition, if AQS1301 or another product candidate is approved in the U.S., Aequus' product labeling, advertising and promotional materials would be subject to regulatory requirements and continuing review by the FDA, Department of Justice, Department of Health and Human Services' Office of Inspector General, state attorneys general, members of Congress and the public. The FDA strictly regulates the promotional claims that may be made about prescription products. In particular, a product may not be promoted for uses that are not approved by the FDA as reflected in the product's approved labeling, a practice known as off-label promotion. If Aequus receives marketing approval for AQS1301 or another product candidate, physicians may nevertheless prescribe AQS1301 or other product candidates to their patients in a manner that is inconsistent with the approved label. If Aequus is found to have promoted such off-label uses, Aequus may become subject to significant liability and government fines. In the U.S., the FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have promoted off-label uses may be subject to significant sanctions. The U.S. federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. The FDA has also requested that companies enter into consent decrees of permanent injunctions under which specified promotional conduct is changed or curtailed. For example, Aequus believes that AQS1301, if approved, will have a label consistent with all other marketed antipsychotic products, which include class labeling that warns of risks of certain safety concerns including weight gain, hyperlipidemia, hyperglycemia, Tardive Dyskinesia, Neuroleptic Malignant Syndrome and black box warnings regarding increased mortality risk in the elderly and increase suicidal thoughts or behaviors in some children, teenagers, and young adults. However, regulatory authorities may require the inclusion of additional statements about adverse events in the label, including additional black box warnings or contraindications. AQS1301 would also be subject to similar legal requirements if approved in other jurisdictions.

In the U.S., engaging in the impermissible promotion of Aequus' products, following approval, for off-label uses can also subject Aequus to false claims litigation under federal and state statutes, which can lead to civil and criminal penalties and fines, agreements with governmental authorities that materially restrict the manner in which Aequus promotes or distributes drug products through, for example, corporate integrity agreements, and debarment, suspension or exclusion from participation in federal and state healthcare programs. These false claims statutes include the U.S. federal civil *False Claims Act*, which allows any individual to bring a lawsuit against a pharmaceutical company on behalf of the federal government alleging submission of false or fraudulent claims, or causing others to present such false or fraudulent claims, for payment by a federal program such as Medicare or Medicaid. If the government decides to intervene and prevails in the lawsuit, the individual will share in the proceeds from any fines or settlement funds. If the government declines to intervene, the individual may pursue the case alone. Since 2004, these *False Claims Act* lawsuits against pharmaceutical companies have increased significantly in volume and breadth, leading to several substantial civil and criminal settlements regarding certain sales practices promoting off-label drug uses involving fines that have been as much as $3.0 billion. This growth in litigation has increased the risk that a pharmaceutical company will have to defend a false claim action, pay settlement fines or restitution, agree to comply with burdensome reporting and compliance obligations, and be excluded from Medicare, Medicaid and other federal and state healthcare programs. If Aequus does not lawfully promote Aequus' approved products, if any, Aequus may become subject to such litigation and, if Aequus does not successfully defend against such actions, those actions may have a material adverse effect on Aequus' business, financial condition, results of operations and prospects.

If Aequus or a regulatory agency discover previously unknown problems with a product candidate, once approved, such as adverse events of unanticipated severity or frequency lack of efficacy, data integrity issues with regulatory filings, problems with the facility where the product is manufactured or Aequus or Aequus' manufacturers fail to comply with applicable regulatory requirements, Aequus may be subject to reporting obligations as well as the following administrative or judicial sanctions in the U.S. or elsewhere:

- Costly and repeated regulatory inspections;

- Restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- Issuance of Warning Letters, Cyber Letters or Untitled Letters;
- Mandate modification to promotional materials or require Aequus to provide corrective information to healthcare providers;
- Require Aequus to enter into a consent decree, which can include imposition of various fines, reimbursement for inspection costs, required due dates for specific actions and penalties for noncompliance;
- Clinical holds;
- Injunctions or the imposition of civil or criminal penalties, imprisonment or monetary fines;
- Suspension or withdrawal of regulatory approval;
- Suspension of any ongoing clinical trials;
- Refusal to approve pending applications or supplements to approved applications filed by Aequus, or suspension or revocation of product license approvals;
- Debarment;
- Suspension or imposition of restrictions on operations, including costly new manufacturing requirements;
- Product seizure or detention or refusal to permit the import or export of product; or
- Restrictions on prices charged going forward.

The occurrence of any event or penalty described above may inhibit Aequus' ability to commercialize AQS1301 or any other product candidate, if approved, and generate revenue. Adverse regulatory action, whether pre- or post-approval, can also potentially lead to product liability claims and increase Aequus' product liability exposure.

Moreover, the TPD or FDA's policies may change and additional government regulations may be enacted that could prevent, limit or delay marketing approval, and the sale and promotion of Aequus' product candidates in Canada or the U.S. If Aequus is slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if Aequus is not able to maintain regulatory compliance, Aequus may lose any marketing approval that Aequus may have obtained, which would adversely affect Aequus' business, prospects and ability to achieve or sustain profitability.

Even if AQS1301 receives marketing approval by the FDA in the U.S., Aequus may never receive marketing approval for or commercialize AQS1301 or any other product candidates outside the U.S.

In order to market AQS1301 or any other product candidate outside the U.S., Aequus must obtain separate marketing approvals and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of Aequus' product candidates. The time required to obtain approval in other countries might differ from and be longer than that required to obtain FDA approval. The marketing approval process in other countries may include all of the risks associated with obtaining FDA approval in the U.S., as well as other risks. For example, legislation analogous to Section 505(b)(2) of the FDCA in the U.S., which relates to the ability of an NDA applicant to use published data not developed by such applicant, may not exist in other countries. In territories where data is not freely available, Aequus may not have the ability to commercialize Aequus' products, when and if approved, without negotiating rights from

third parties to refer to their clinical data in Aequus' regulatory applications, which could require the expenditure of significant additional funds. Further, Aequus may be unable to obtain rights to the necessary clinical data and may be required to develop Aequus' own proprietary safety and efficacy dossiers. In addition, in many countries outside the U.S., it is required that a product receive pricing and reimbursement approval before the product can be commercialized. This can result in substantial delays in such countries. Further, the product labeling requirements outside the U.S. may be different and inconsistent with the U.S. labeling and to the detriment of the product, and therefore negatively affect the ability to market in countries outside the U.S.

Marketing approval in one country does not ensure marketing approval in another, or any regulatory approval obtained may not be as broad as what was obtained in other jurisdictions, but a failure or delay in obtaining marketing approval in one country may have a negative effect on the regulatory process in others. In addition, Aequus may be subject to fines, suspension or withdrawal of marketing approvals, product recalls, seizure of products, operating restrictions and criminal prosecution if Aequus fails to comply with applicable foreign regulatory requirements. If Aequus fails to comply with regulatory requirements in international markets or to obtain and maintain required approvals, Aequus' ability to market to Aequus' full target market will be reduced and Aequus' ability to realize the full market potential of Aequus' product candidates will be harmed.

Aequus will need to obtain FDA approval of any proposed product names, and any failure or delay associated with such approval may adversely affect Aequus' business.

Any name Aequus intends to use in the U.S. for Aequus' lead program, AQS1301, or Aequus' other product candidates, will require approval from the FDA regardless of whether Aequus has secured a formal trademark registration from the U.S. Patent and Trademark Office ("**USPTO**"). The FDA typically conducts a review of proposed product names, including an evaluation of the potential for confusion with other product names. The FDA may also object to a product name if it believes the name inappropriately implies medical claims or contributes to an overstatement of efficacy. If the FDA objects to any of Aequus' proposed product names, Aequus may be required to adopt alternative names for Aequus' product candidates. If Aequus adopts alternative names, Aequus would lose the benefit of Aequus' existing trademark applications for such product candidate and may be required to expend significant additional resources in an effort to identify a suitable product name that would qualify under applicable trademark laws, not infringe the existing rights of third parties and be acceptable to the FDA. Aequus may be unable to build a successful brand identity for a new trademark in a timely manner or at all, which would limit Aequus' ability to commercialize Aequus' product candidates. Further, if the regulator does not approve the trademark in one jurisdiction, then Aequus may be required to obtain different trademarks in many jurisdictions. Similar comments apply to other jurisdictions.

Aequus' relationships with physicians, customers and payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose Aequus to criminal sanctions, civil penalties, exclusion from government healthcare programs, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, physicians and others play a primary role in the recommendation and prescription of any product candidates that Aequus may commercialize. Aequus' arrangements with third-party payors, including government healthcare programs, and customers will expose Aequus to broadly-applicable U.S. and foreign fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which Aequus markets, sells and distributes AQS1301, if approved, and any other product candidates Aequus may commercialize. Restrictions under applicable U.S. federal and state healthcare laws and regulations include the following:

- The U.S. federal *Anti-Kickback Statute* prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as Medicare and Medicaid;

- The U.S. *False Claims Act*, including civil whistleblower or qui tam actions, imposes criminal and civil penalties against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease, or conceal an obligation to pay money to the federal government;

- The U.S. federal *Health Insurance Portability and Accountability Act of 1996* ("**HIPAA**"), created federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;

- HIPAA, as amended by the U.S. *Health Information Technology for Economic and Clinical Health Act*, and its implementing regulations, impose obligations on covered healthcare providers, health plans and healthcare clearinghouses, as well as their business associates that create receive, maintain or transmit individually identifiable health information for or on behalf of a covered entity, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

- The federal physician payment transparency requirements under the ACA and applicable regulations require manufacturers of drugs, devices, biologics and medical supplies to report certain information to the Department of Health and Human Services including information related to payments and other transfers of value made to physicians and teaching hospitals and the ownership and investment interests held by physicians and their immediate family members; and

- Analogous state laws and regulations, such as state anti-kickback and false claims laws that may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government in addition to requiring drug manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures and drug pricing; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not pre-empted by HIPAA, thus complicating compliance efforts.

The risk of Aequus being found in violation of these laws and regulations is increased by the fact that many of them have not been fully interpreted by the relevant government or regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Moreover, recent healthcare reform legislation has strengthened these laws. For example, the ACA, among other things, amended the intent requirement of the federal anti-kickback and criminal healthcare fraud statutes; such that a person or entity no longer needs to have actual knowledge of these statutes or specific intent to violate them. In addition, the ACA provided that the U.S. government may assert that a claim including items or services resulting from a violation of the U.S. federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes.

Efforts to ensure that Aequus' business arrangements with third parties will comply with applicable healthcare laws and regulations are costly. It is possible that governmental authorities will conclude that Aequus' business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If Aequus' operations are found to be in violation of any of these laws or any other governmental regulations that may apply to Aequus, Aequus may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of Aequus' operations. If any of the physicians or other providers or entities with whom Aequus expects to do business is found to not be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs. Similar comments apply to analogous healthcare laws and regulations in other jurisdictions.

Risks Related to Intellectual Property Rights

Aequus may not be able to protect Aequus' proprietary technology in the marketplace.

Aequus depends on its ability to protect Aequus' proprietary technology. Aequus relies on trade secret, patent, copyright and trademark laws, and confidentiality, licensing and other agreements with executives, consultants and third parties, all of which offer only limited protection. Aequus' success depends in large part on Aequus' ability and any future licensee's ability to maintain Aequus' patents and to obtain additional patent protection in Canada, the U.S. and other countries with respect to Aequus' proprietary technology and products. Aequus believes it will be able to obtain, through prosecution of Aequus' pending patent applications, additional patent protection for Aequus' proprietary technology. If Aequus is compelled to spend significant time and money protecting or enforcing Aequus' patents, designing around patents held by others or licensing or acquiring, potentially for large fees, patents or other proprietary rights held by others, Aequus' business and financial prospects may be harmed. If Aequus is unable to effectively protect the intellectual property that Aequus owns, other companies may be able to offer for sale the same or similar products containing the generically available active pharmaceutical ingredients in Aequus' product candidates, which could materially adversely affect Aequus' competitive business position and harm Aequus' business prospects. Aequus' patents may be challenged, narrowed, invalidated or circumvented, which could limit Aequus' ability to stop competitors from marketing the same or similar products or limit the length of term of patent protection that Aequus may have for Aequus' product candidates. Even if Aequus' patents are unchallenged, they may not adequately protect Aequus' intellectual property, provide exclusivity for Aequus' product candidates or prevent others from designing around Aequus' claims. Any of these outcomes could impair Aequus' ability to prevent competition from third parties, which may have an adverse impact on Aequus' business.

The patent positions of pharmaceutical products are often complex and uncertain. The breadth of claims allowed in pharmaceutical patents in Canada, the U.S. and many jurisdictions outside of Canada and the U.S. is not consistent. For example, in many jurisdictions the support standards for pharmaceutical patents are becoming increasingly strict. Some countries prohibit method of treatment claims in patents. Changes in either the patent laws or interpretations of patent laws in Canada, the U.S. and other countries may diminish the value of Aequus' intellectual property or create uncertainty. In addition, publication of information related to Aequus' current product candidates and potential products may prevent Aequus from obtaining or enforcing patents relating to these product candidates and potential products, including without limitation transdermal delivery systems and methods of using such transdermal delivery systems. Aequus' product candidates contain generically available active pharmaceutical ingredients. As a result, composition-of-matter patents directed to the active pharmaceutical ingredients in Aequus' product candidates, which are generally believed to offer the strongest form of patent protection, are not available for Aequus' product candidates.

Patents that Aequus owns or may license in the future do not necessarily ensure the protection of Aequus' intellectual property for a number of reasons, including without limitation, the following:

- The active pharmaceutical ingredients in Aequus' product candidates are generic and therefore Aequus' patents do not include claims directed solely to the active pharmaceutical ingredients;

- Aequus' patents may not be broad or strong enough to prevent competition from other products that are identical or similar to Aequus' product candidates using the same active pharmaceutical ingredients;

- There can be no assurance that the term of a patent protection will be long enough for Aequus' company to realize sufficient economic value under the patents following commercialization of Aequus' product candidates;

- Aequus does not expect, upon approval of Aequus' NDA, to receive patent term restoration under the U.S. *Hatch-Waxman Act* for any patents that have been submitted to the FDA for listing in the Orange Book;

- Aequus' issued patents and pending patent applications that may issue as patents in the future may not prevent entry into the Canada or U.S. markets or other markets of generic versions of Aequus' AQS1301 and other product candidates;

- Aequus does not at this time own or control issued foreign patents in all markets that would prevent generic entry into some markets for Aequus' product candidates;

- Aequus may be required to disclaim part of the term of one or more patents;

- There may be prior art of which Aequus is not aware that may affect the validity or enforceability of a patent claim;

- There may be prior art of which Aequus is aware, which Aequus does not believe affects the validity or enforceability of a patent claim, but which, nonetheless, ultimately may be found to affect the validity or enforceability of a patent claim;

- There may be other patents issued to others that will affect Aequus' freedom to operate;

- If Aequus' patents are challenged, a patent office or a court could determine that they are invalid or unenforceable;

- There might be changes in the law that governs patentability, validity and infringement of Aequus' patents that adversely affects the scope or enforceability of Aequus' patent rights;

- A court could determine that a competitor's technology or product that is the same as or similar to Aequus' product candidates does not infringe Aequus' patents; and

- Aequus' patents could irretrievably lapse due to failure to pay fees or otherwise comply with regulations or could be subject to compulsory licensing.

If Aequus encounters delays in its development or clinical trials, the period of time during which Aequus could market Aequus' product candidates under patent protection would be reduced.

Aequus' competitors may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. Aequus' competitors may seek to market generic versions of any approved products by submitting abbreviated new drug applications to the FDA or other regulatory authorities in which Aequus' competitors claim that Aequus' patents are invalid, unenforceable or not infringed. Alternatively, Aequus' competitors may seek approval to market their own products that are the same as, similar to or otherwise competitive with Aequus' product candidates. In these circumstances, Aequus may need to defend or assert Aequus' patents, by means including filing lawsuits alleging patent infringement. In any of these types of proceedings, a court or government agency with jurisdiction may find Aequus' patents invalid, unenforceable or not infringed. Aequus may also fail to identify patentable aspects of Aequus' R&D before it is too late to obtain patent protection. Even if Aequus has valid and enforceable patents, these patents still may not provide protection against competing products or processes sufficient to achieve Aequus' business objectives.

The issuance of a patent is not conclusive as to its inventorship, scope, ownership, priority, validity or enforceability. In that regard, third parties may challenge Aequus' patents in the courts or patent offices in Canada, the U.S. and abroad. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit Aequus' ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of Aequus' technology and potential products. In addition, given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire or be held invalid or unenforceable before Aequus' company can realize sufficient economic value following commercialization of Aequus' product candidates.

Aequus' intellectual property portfolio is currently comprised of pending patent applications. If Aequus' pending patent applications fail to issue or fail to issue with a scope that is meaningful to Aequus' product candidates, Aequus' business will be adversely affected.

There can be no assurance that our pending patent applications will result in issued patents in Canada, the U.S. or foreign jurisdictions in which such applications are pending. Even if patents do issue on any of these applications, there can be no assurance that a third party will not challenge their validity or enforceability, or that Aequus will obtain sufficient claim scope or term in those patents to prevent a third party from competing successfully with Aequus' product candidates.

Aequus may not be able to enforce Aequus' intellectual property rights throughout the world.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of Canada and the U.S. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property protection, especially those relating to life sciences. To the extent that Aequus has obtained or is able to obtain patents or other intellectual property rights in any foreign jurisdictions, it may be difficult for Aequus to stop the infringement of Aequus' patents or the misappropriation of other intellectual property rights. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the availability of certain types of patent rights and enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit.

Proceedings to enforce Aequus' patent rights in foreign jurisdictions could result in substantial costs and divert Aequus efforts and attention from other aspects of Aequus' business. Accordingly, Aequus' efforts to protect Aequus' intellectual property rights in such countries may be inadequate.

Recent patent reform legislation in the U.S. could increase the uncertainties and costs surrounding the prosecution of Aequus' patent applications and the enforcement or defense of Aequus' issued patents, if any.

On September 16, 2011, the *Leahy-Smith America Invents Act* (the "**Leahy-Smith Act**") was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. In particular, under the Leahy-Smith Act, the U.S. transitioned in March 2013 to a "first to file" system in which the first inventor to file a patent application will be entitled to the patent. Third parties are allowed to submit prior art before the issuance of a patent by the USPTO, and may become involved in post-grant proceedings including opposition, derivation, re-examination, inter-partes review or interference proceedings challenging Aequus' patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope or enforceability of, or invalidate, Aequus' patent rights, which could adversely affect Aequus' competitive position.

The USPTO has developed regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, did not become effective until March 16, 2013. However, the full impact of the Leahy-Smith Act and the courts' review of any appeals to related proceedings, is in its early stages. Accordingly, the full impact that the Leahy-Smith Act will have on the operation of Aequus' business is not clear. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of Aequus' patent applications and the enforcement or defense of Aequus' issued patents, as well as Aequus' ability to bring about timely favorable resolution of any disputes involving Aequus' patents and the patents of others.

Obtaining and maintaining Aequus' patent protection depends on compliance with various procedural, documentary, fee payment and other requirements imposed by governmental patent agencies, and Aequus' patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require

compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in unenforceability, invalidity, abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in unenforceability, invalidity, abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If Aequus or any future licensors fail to maintain the patents and patent applications covering Aequus' product candidates, Aequus' competitive position would be adversely affected.

Aequus may infringe the intellectual property rights of others, which may prevent or delay Aequus' product development efforts and stop Aequus from commercializing or increase the costs of commercializing Aequus' products, when and if approved.

Aequus' commercial success depends significantly on Aequus' ability to operate without infringing the patents and other intellectual property rights of third parties. For example, there could be issued patents of which Aequus is not aware that Aequus' current or future product candidates infringe. There also could be patents that Aequus believes Aequus does not infringe, but that Aequus may ultimately be found to infringe.

Moreover, patent applications are in some cases maintained in secrecy until patents are issued. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. There may be currently pending applications of which Aequus is unaware that may later result in issued patents that Aequus' current or future product candidates infringe. For example, pending applications may exist that claim or can be amended to claim subject matter that Aequus' current or future product candidates infringe. Competitors may file continuing patent applications claiming priority to already issued patents in the form of continuation, divisional or continuation-in-part applications, in order to maintain the pendency of a patent family and attempt to cover Aequus' product candidates.

Third parties may assert that Aequus is employing their proprietary technology without authorization and may sue Aequus for patent or other intellectual property infringement or misappropriation. These lawsuits are costly and could adversely affect Aequus' results of operations and divert the attention of managerial and scientific personnel. If Aequus is sued for patent infringement, Aequus would need to demonstrate that Aequus' product candidates or methods either do not infringe the claims of the relevant patent or that the patent claims are invalid, and Aequus may not be able to do this. Proving invalidity is difficult. For example, in the U.S., proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if Aequus is successful in these proceedings, Aequus may incur substantial costs and the time and attention of Aequus' management and scientific personnel could be diverted in pursuing these proceedings, which could have a material adverse effect on Aequus. In addition, Aequus may not have sufficient resources to bring these actions to a successful conclusion. If a court holds that any third-party patents are valid, enforceable and cover Aequus' product candidates or their use, the holders of any of these patents may be able to block Aequus' ability to commercialize Aequus' product candidates unless Aequus acquires or obtains a license under the applicable patents or until the patents expire. Aequus may not be able to enter into licensing arrangements or make other arrangements at a reasonable cost or on reasonable terms. Any inability to secure licenses or alternative technology could result in delays in the introduction of Aequus' product candidates or lead to prohibition of the manufacture or sale of product candidates by Aequus. Even if Aequus is able to obtain a license, it may be non-exclusive, thereby giving Aequus' competitors access to the same technologies licensed to Aequus. Aequus could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, in any such proceeding or litigation, Aequus could be found liable for monetary damages, including treble damages and attorneys' fees if Aequus is found to have willfully infringed a patent. A finding of infringement could prevent Aequus from commercializing Aequus' product candidates or force Aequus to cease some of Aequus' business operations, which could materially harm Aequus' business. Any claims by third parties that Aequus has misappropriated their confidential information, know-how or trade secrets could have a similar negative impact on Aequus' business. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on Aequus' ability to raise the funds necessary to continue Aequus' operations.

Aequus may be subject to claims that Aequus or Aequus' consultants or contractors have misappropriated the intellectual property, including know-how or trade secrets, of a third party, or that claim ownership of what Aequus regards as Aequus' own intellectual property.

Many of Aequus' consultants and contractors were previously employed at or engaged by biotechnology companies or other pharmaceutical companies, including Aequus' competitors or potential competitors. Some of these consultants and contractors, including each member of Aequus' senior management, executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Aequus may be subject to claims that Aequus or its consultants and contractors have used or disclosed the intellectual property and other proprietary information or know-how or trade secrets of others in their work for Aequus. Litigation may be necessary to defend against these claims. Aequus is not aware of any threatened or pending claims related to these matters or concerning agreements with Aequus' senior management, or other of Aequus' employees, consultants and contractors, but litigation may be necessary in the future to defend against such claims. If Aequus fails in defending any such claims, in addition to paying monetary damages, Aequus may lose valuable intellectual property rights, or personnel or access to consultants and contractors. Even if Aequus is successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while Aequus typically requires Aequus' consultants and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to Aequus, Aequus may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that Aequus regards as Aequus' own, which may result in claims by or against Aequus related to the ownership of such intellectual property. If Aequus fails in prosecuting or defending any such claims, in addition to paying monetary damages, Aequus may lose valuable intellectual property rights. Even if Aequus is successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to Aequus' management and scientific personnel.

Aequus may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

Aequus relies on trade secrets to protect Aequus' proprietary technological advances and know-how, especially where Aequus does not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Aequus relies in part on confidentiality agreements with Aequus' consultants, contractors, outside scientific collaborators, sponsored researchers and other advisors, including the third parties Aequus relies on to manufacture Aequus' product candidates, to protect Aequus' trade secrets and other proprietary information. However, any party with whom Aequus has executed such an agreement may breach that agreement and disclose Aequus' proprietary information, including Aequus' trade secrets. Accordingly, these agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of Aequus' proprietary rights. In addition, others may independently discover Aequus' trade secrets and proprietary information. Further, the FDA, as part of its Transparency Initiative, a proposal to increase disclosure and make data more accessible to the public, is currently considering whether to make additional information publicly available on a routine basis, including information that Aequus may consider to be trade secrets or other proprietary information, and it is not clear at the present time how the FDA's disclosure policies may change in the future, if at all. Failure to obtain or maintain trade secret protection could enable competitors to use Aequus' proprietary information to develop products that compete with Aequus' products or cause additional, material adverse effects upon Aequus' competitive business position and financial results.

Any lawsuits relating to infringement of intellectual property rights brought by or against Aequus will be costly and time consuming and may adversely impact the price of Aequus' Common Shares.

Aequus may be required to initiate litigation to enforce or defend Aequus' intellectual property rights. These lawsuits can be very time consuming and costly. There is a substantial amount of litigation involving patent and other intellectual property rights in the pharmaceutical industry generally. Such litigation or proceedings could substantially increase Aequus' operating expenses and reduce the resources available for development activities or any future sales, marketing or distribution activities.

In infringement litigation, any award of monetary damages Aequus receives may not be commercially valuable. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of Aequus' confidential information and trade secrets could be compromised by disclosure during litigation. Moreover, there can be no assurance that Aequus will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are resolved. Further, any claims Aequus asserts against a perceived infringer could provoke these parties to assert counterclaims against Aequus alleging that Aequus has infringed their patents. Some of Aequus' competitors may be able to sustain the costs of such litigation or proceedings more effectively than Aequus can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on Aequus' ability to compete in the marketplace.

In addition, Aequus' patents and patent applications could face other challenges, such as interference proceedings, opposition proceedings, reissue, inter partes review, re-examination proceedings, third-party submissions of prior art, and other forms of post-grant review. Any of these challenges, if successful, could result in the invalidation of, or in a narrowing of the scope or preventing the issuance of, any of Aequus' patents and patent applications subject to challenge. Any of these challenges, regardless of their success, would likely be time consuming and expensive to defend and resolve and would divert Aequus' management and scientific personnel's time and attention.

In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the market price of Aequus' Common Shares.

Intellectual property disputes could cause Aequus to spend substantial resources and distract Aequus' personnel from their normal responsibilities.

Even if resolved in Aequus' favor, litigation or other legal proceedings relating to intellectual property claims may cause Aequus to incur significant expenses and could distract Aequus' technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the market price of Aequus' Common Shares. Such litigation or proceedings could substantially increase Aequus' operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. Aequus may not have sufficient financial or other resources to adequately conduct such litigation or proceedings.

Risks Related to the Development, Licensing and Acquisition of Additional Product Candidates

If Aequus fails to develop and commercialize Aequus' current pipeline of additional product candidates, Aequus' prospects for future growth and Aequus' ability to reach or sustain profitability may be limited.

A key element of Aequus' strategy is to develop, obtain regulatory approval for and commercialize Aequus' current portfolio of product candidates in addition to AQS1301. Aequus may not be successful in Aequus' efforts to develop Aequus' portfolio of additional product candidates, and any product candidates Aequus does develop may not produce commercially viable products that safely and effectively treat their indicated conditions. To date, Aequus' efforts have yielded five additional product candidates in addition to AQS1301, including AQS1302, AQS1303, Topiramate XR, Oxcarbazepine XR and AQS1304, its recently acquired cannabinoid transdermal patch, which are all focused on treating diseases of the CNS.

Aequus' development programs may initially show promise in identifying potential product leads, yet fail to produce product candidates for clinical development. In addition, identifying new treatment needs and product candidates requires substantial technical, financial and human resources on Aequus' part. If Aequus is unable to obtain development partners or additional development program funding, or to continue to devote substantial technical and human resources to such programs, Aequus may have to delay or abandon these programs. Any product candidate that Aequus successfully identifies may require substantial additional development efforts prior to commercial sale, including preclinical studies, extensive clinical testing and approval by the FDA and applicable foreign regulatory

authorities. All product candidates are susceptible to the risks of failure that are inherent in pharmaceutical product development.

Aequus may be unable to license or acquire suitable additional product candidates or technologies from third parties for a number of reasons.

The licensing and acquisition of pharmaceutical products is competitive. A number of more established companies are also pursuing strategies to license or acquire products. These established companies may have a competitive advantage over Aequus due to their size, cash resources or greater clinical development and commercialization capabilities. In addition, Aequus expects competition in acquiring product candidates to increase, which may lead to fewer suitable acquisition opportunities for Aequus as well as higher acquisition prices.

Other factors that may prevent Aequus from licensing or otherwise acquiring suitable product candidates include the following:

- Aequus may be unable to license or acquire the relevant technology on terms that would allow Aequus to make an appropriate return on Aequus' investment in such product;

- Companies that perceive Aequus to be their competitor may be unwilling to assign or license their product rights to Aequus;

- Aequus may be unable to identify suitable products or product candidates within Aequus' areas of expertise; or

- Aequus may not have sufficient funds to acquire, develop or commercialize additional product candidates or technologies.

Changes in laws, regulations, guidelines and similar issues relating to marijuana may impact the business, results of operations and financial condition of the Company.

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.

The Company may be subject to unfavourable publicity or consumer perception in connection with AQS1304, its recently acquired cannabinoid transdermal patch.

The Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana products. Consumer perception of AQS1304 can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the use of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for AQS1304 and the business, results of operations, financial condition and cash flows of the Company. Aequus' dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for AQS1304, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or AQS1304 specifically, or associating the use of medical

marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Assuming we are successful commercializing AQS1304 the future success of AQS1304 may be dependent on additional states legalizing medical marijuana.

Assuming we are successful in commercializing AQS1304, the future success of AQS1304 may depend on the continued development of the medical marijuana market, and on our ability to penetrate that market. According to the Marijuana Policy Project, a pro-legalization group, medical marijuana is legal in 29 states and Washington, D.C., Puerto Rico and Guam. However, continued development of the medical marijuana market in the United States is dependent upon continued legislative authorization of marijuana at the state level for medical purposes and, in certain states, based on the specifics of the legislation passed in that state. Numerous factors impact the legislative process. Any one of these factors could slow or halt the progress and adoption of marijuana for medical purposes, which would limit the market for AQ1304 and negatively impact our business and revenues.

Marijuana remains illegal under United States federal law.

As described above, while 29 states and Washington, D.C. have laws and/or regulations that recognize, in one form or another, legitimate medical and consumer uses for marijuana, marijuana use remains prohibited under United States federal law and the risk of strict enforcement of the Controlled Substance Act (the "**CSA**") in light of Congressional activity, judicial holdings and stated federal policy remains uncertain. Because we do not currently cultivate, produce, sell or distribute any marijuana, we believe that we have no risk that we will be deemed to facilitate the selling or distribution of marijuana in violation of United States federal law. Strict enforcement of United States federal law regarding marijuana could discourage the activities of some of our potential customers, which could result in our inability to proceed with our business plan.

We may have difficulty accessing the service of U.S. banks.

As discussed above, the use of marijuana is illegal under United States federal law. Therefore, if we are successful in commercializing AQS1304, there is a compelling argument that U.S. banks would not be able to accept for deposit funds from the drug trade and therefore would not be able to do business with the Company. On February 14, 2014 the U.S. Department of the Treasury Financial Crimes Enforcement Network ("**FinCEN**") released guidance to banks "clarifying Bank Secrecy Act expectations for financial institutions seeking to provide services to marijuana-related businesses." Under these guidelines, financial institutions must submit a "suspicious activity report" ("**SAR**") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. There can be no assurance this legislation will be successful, that even with the FinCEN guidance that banks will decide to do business with companies in the medical marijuana industry retailers, or that in the absence of actual legislation state and federal banking regulators will not strictly enforce current prohibitions on banks handling funds generated from an activity that is illegal under federal law. If, in the future, we are unable to open accounts and otherwise use the service of U.S. banks, our ability to carry on business in the United States may become untenable.

Risks Related to Aequus' Business Operations and Industry

If Aequus is not successful in attracting and retaining highly qualified personnel, Aequus may not be able to successfully implement Aequus' business strategy.

Aequus' ability to compete in the highly competitive pharmaceuticals industry depends in large part upon Aequus' ability to attract and retain highly qualified managerial, scientific and medical personnel. Aequus is highly dependent on Aequus' management, scientific and medical personnel. In order to induce valuable executives and consultants to remain with Aequus, Aequus has provided these executives and consultants with stock options that vest over time. The value to executives and consultants of stock options that vest over time is significantly affected by movements in

Aequus' stock price that Aequus cannot control and may at any time be insufficient to counteract more lucrative offers from other companies.

Aequus' management team has expertise in many different aspects of drug development and commercialization. Competition for skilled personnel in Aequus' market is intense and competition for experienced personnel may limit Aequus' ability to hire and retain highly qualified personnel on acceptable terms. Despite Aequus' efforts to retain valuable executives and consultants, members of Aequus' management, scientific and medical teams may terminate their employment with Aequus on short notice. The loss of the services of any of Aequus' executive officers or other key individuals could potentially harm Aequus' business, operating results or financial condition. Aequus does not currently carry "key person" insurance on the lives of members of executive management. Aequus' success also depends on Aequus' ability to continue to attract, retain and motivate highly skilled junior, mid-level and senior managers as well as junior, mid-level and senior scientific and medical personnel.

Other pharmaceutical companies with which Aequus competes for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than Aequus does. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than those that Aequus has to offer. If Aequus is unable to continue to attract and retain high-quality personnel, the rate of and success with which Aequus can develop and commercialize product candidates would be limited.

If product liability lawsuits are brought against Aequus, Aequus may incur substantial liabilities and may be required to limit commercialization of AQS1301, if approved.

Aequus faces a potential risk of product liability as a result of the clinical testing of AQS1301 and will face an even greater risk if Aequus commercializes AQS1301, if approved, or any other current or future product candidate. For example, Aequus may be sued if any product candidate Aequus develops allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If Aequus cannot successfully defend itself against product liability claims, Aequus may incur substantial liabilities or be required to limit commercialization of the product candidate subject to such claims. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- Decreased demand for AQS1301 or any future product candidates that Aequus may develop;
- Injury to Aequus' reputation;
- Withdrawal of clinical trial participants;
- Costs to defend any related litigation;
- A diversion of management's time and Aequus' resources;
- Substantial monetary awards to trial participants or patients;
- Product recalls, withdrawals or labeling, marketing or promotional restrictions;
- Loss of revenue;
- The inability to commercialize AQS1301 or any other of Aequus' internal product candidates, if approved;
- A decline in Aequus' stock price; and

- Exposure to adverse publicity.

Aequus' inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of product candidates Aequus develops. Aequus does not currently maintain product liability insurance given its current level of product development. Although Aequus does maintain other forms of insurance, any claim that may be brought against Aequus could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by Aequus' insurance or that is in excess of the limits of Aequus' insurance coverage. Aequus' insurance policies also have various exclusions, and Aequus may be subject to a product liability claim for which Aequus has no coverage. Aequus may have to pay any amounts awarded by a court or negotiated in a settlement that exceed Aequus' coverage limitations or that are not covered by Aequus' insurance, and Aequus may not have, or be able to obtain, sufficient capital to pay such amounts.

Aequus may acquire businesses or products, or form strategic alliances in the future, and Aequus may not realize the benefits of such acquisitions or alliances.

Aequus may acquire additional businesses or products, form strategic alliances or create joint ventures with third parties that Aequus believes will complement or augment Aequus' existing business. If Aequus acquires businesses with promising markets or technologies, Aequus may not be able to realize the benefit of acquiring such businesses if Aequus is unable to successfully integrate them with Aequus' existing operations and company culture. Aequus may encounter numerous difficulties in developing, manufacturing and marketing any new products resulting from a strategic alliance or acquisition that delay or prevent Aequus from realizing their expected benefits or enhancing Aequus' business. Aequus cannot assure you that, following any such acquisition, Aequus will achieve the expected synergies to justify the transaction.

Aequus' business is affected by macroeconomic conditions.

Various macroeconomic factors could adversely affect Aequus' business and the results of Aequus' operations and financial condition, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions and uncertainties, including those resulting from political instability and the current and future conditions in the global financial markets. For instance, if inflation or other factors were to significantly increase Aequus' business costs, it may not be feasible to pass through price increases to patients. Interest rates, the liquidity of the credit markets and the volatility of the capital markets could also affect the value of Aequus' investments and Aequus' ability to liquidate Aequus' investments in order to fund Aequus' operations, if necessary.

Interest rates and the ability to access credit markets could also adversely affect the ability of patients, payors and distributors to purchase, pay for and effectively distribute Aequus' products if and when approved. Similarly, these macroeconomic factors could affect the ability of Aequus' current or potential future contract manufacturers, sole-source or single-source suppliers, or licensees to remain in business or otherwise manufacture or supply Aequus' product candidates. Failure by any of them to remain in business could affect Aequus' ability to manufacture product candidates.

Aequus incurs significant increased costs as a result of operating as a public company, and Aequus' management is required to devote substantial time to compliance initiatives.

As a public company, Aequus incurs significant legal, accounting and other expenses that Aequus did not incur as a private company. Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. Aequus anticipates that costs may continue to increase with corporate governance related requirements, including, without limitation, requirements under National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), National Instrument 52-110 - *Audit Committees* ("**NI 52-110**") and National Instrument 58-101 - *Disclosure of Corporate Governance Practices*.

Aequus' management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased Aequus' legal and financial compliance costs and made some

activities more time-consuming and costly. For example, these rules and regulations may make it more difficult and more expensive for Aequus to obtain director and officer liability insurance.

Aequus' testing, or the subsequent testing by Aequus' independent registered public accounting firm, may reveal deficiencies in Aequus' internal control over financial reporting that are deemed to be material weaknesses. Aequus will incur substantial accounting expense and expend significant management efforts to comply with internal control over financial reporting requirements. Aequus currently does not have an internal audit group, and Aequus hires additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if Aequus is not able to comply with these requirements in a timely manner or if Aequus or Aequus' independent registered public accounting firm identifies deficiencies in Aequus' internal control over financial reporting that are deemed to be material weaknesses, the market price of Aequus' Common Shares could decline, and Aequus could be subject to sanctions or investigations by applicable securities regulatory authorities, which would require additional financial and management resources.

Business interruptions could delay Aequus in the process of developing its product candidates and could disrupt Aequus' sales.

Aequus' headquarters are located in Vancouver, British Columbia, Canada; Corium, Aequus' contract manufacturer, is located in Grand Rapids, Michigan, USA; and TRPL is located in Long Island City, New York. Aequus is vulnerable to natural disasters, such as severe storms and other events that could disrupt Aequus, Corium or TRPL's operations. Aequus does not carry insurance for natural disasters and Aequus may not carry sufficient business interruption insurance to compensate Aequus for losses that may occur. Any losses or damages Aequus incurs could have a material adverse effect on Aequus' business operations.

Aequus' business and operations would suffer in the event of system failures.

Despite the implementation of security measures, Aequus' internal computer systems, and those of Aequus' CROs and other third parties on which Aequus relies, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. If such an event were to occur and cause interruptions in Aequus' operations, it could result in a material disruption of Aequus' drug development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in Aequus' regulatory approval efforts and significantly increase Aequus' costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to Aequus' data or applications, or inappropriate disclosure of confidential or proprietary information, Aequus could incur liability and the further development of Aequus' product candidates could be delayed.

Aequus' employees, independent contractors, principal investigators, CROs, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading, which could significantly harm Aequus' business.

Aequus is exposed to the risk that employees, independent contractors, principal investigators, CROs, consultants, commercial partners and vendors may engage in fraudulent or other illegal activity, fraud or other misconduct. Misconduct by these parties could include intentional, reckless or negligent conduct or disclosure of unauthorized activities to Aequus that violates: (i) the law and regulations of the FDA and non-U.S. regulators, including those laws that require the reporting of true, complete and accurate information to the FDA and non-U.S. regulators, (ii) healthcare fraud and abuse laws and regulations in the U.S. and abroad and (iii) laws that require the true, complete and accurate reporting of financial information or data. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Misconduct in violation of these laws may also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to Aequus' reputation. It is not always possible to identify and deter misconduct by Aequus' executives, consultants and other third parties, and any precautions Aequus takes to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting Aequus from governmental investigations or other actions or lawsuits stemming from

a failure to comply with these laws or regulations. If any such actions are instituted against Aequus, and Aequus is not successful in defending itself or asserting Aequus' rights, those actions could have a significant impact on Aequus' business, including the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, possible exclusion from participation in Medicare, Medicaid and other U.S. federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment of Aequus' operations, any of which could adversely affect Aequus' ability to operate Aequus' business and Aequus' results of operations.

The directors and officers of Aequus may be subject to conflicts of interest.

Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations, and situations may arise where these directors and officers will be in direct competition with Aequus. Some of the directors and officers of Aequus are or may become directors or officers of the other companies engaged in other business ventures whose operations may, from time to time, be in direct competition with Aequus' operations. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the BCBCA.

Risks Related to Ownership of Aequus' Common Shares

Future sales or the issuances of Aequus' securities may cause the market price of Aequus' equity securities to decline.

The market price of our equity securities could decline as a result of issuances of securities by us or sales by our existing shareholders of Common Shares in the market, or the perception that these sales could occur, during the currency of this annual information form. Sales of Common Shares by shareholders may make it more difficult for us to sell equity securities at a time and price that we deem appropriate. Sales or issuances of substantial numbers of Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices of the Common Shares. With any additional sale or issuance of Common Shares, investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per share.

Aequus expects that Aequus' share price may fluctuate significantly.

The market price of securities of many companies, particularly development stage pharmaceutical companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies.

The market price of Aequus' Common Shares could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond Aequus' control, including:

- Adverse results in Aequus' planned clinical trials for AQS1301;
- Aequus' failure to commercialize AQS1301, if approved, or develop and commercialize additional product candidates;
- Unanticipated efficacy, safety or tolerability concerns related to the use of AQS1301;
- Regulatory actions with respect to AQS1301;
- Inability to obtain adequate product supply of AQS1301 or inability to do so at acceptable prices;
- Failure to obtain Health Canada approval for the commercialization of Topiramate XR and Oxcarbazepine XR in Canada;
- Adverse results or delays in Aequus' clinical trials for Aequus' other product candidates;

- Changes in laws or regulations applicable to AQS1301 or any future product candidates, including but not limited to clinical trial requirements for approvals;
- Aequus' inability to effectively promote and market tacrolimus IR or Vistitan in Canada;
- Actual or anticipated fluctuations in Aequus' financial condition and operating results;
- Actual or anticipated changes in Aequus' growth rate relative to Aequus' competitors;
- Competition from existing products or new products that may emerge;
- Announcements by Aequus, Aequus' collaborators or Aequus' competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- Failure to meet or exceed financial estimates and projections of the investment community or that Aequus provides to the public;
- Issuance of new or updated research or reports by securities analysts;
- Fluctuations in the valuation of companies perceived by investors to be comparable to Aequus;
- Share price and volume fluctuations attributable to inconsistent trading volume levels of Aequus' shares;
- Additions or departures of key management or scientific personnel;
- Disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for Aequus' technologies;
- Announcement or expectation of additional debt or equity financing efforts;
- Sales of Aequus' Common Shares by Aequus, Aequus' insiders or Aequus' other shareholders; and
- General economic and market conditions.

These and other market and industry factors may cause the market price and demand for Aequus' Common Shares to fluctuate substantially, regardless of Aequus' actual operating performance, which may limit or prevent investors from readily selling their Common Shares and may otherwise negatively affect the liquidity of Aequus' Common Shares. In addition, the stock market in general, and the TSX-V and the share prices of pharmaceutical companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. In the past, when the market price of shares has been volatile, holders of those shares have instituted securities class action litigation against the company that issued the shares. If any of Aequus' shareholders brought a lawsuit against Aequus, Aequus could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of Aequus' management.

Aequus may be subject to securities litigation, which is expensive and could divert management attention.

The market price of Aequus' Common Shares may be volatile, and in the past companies that have experienced volatility in the market price of their shares have been subject to securities class action litigation. Aequus may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could adversely impact Aequus' business. Any adverse determination in litigation could also subject Aequus to significant liabilities.

Aequus' existing principal shareholders, executive officers and directors own a significant percentage of Aequus' Common Shares and will be able to exert a significant control over matters submitted to Aequus' shareholders for approval.

Aequus' executive officers and directors together beneficially owned approximately 23% of Aequus' outstanding Common Shares as of the date of this annual information form. This significant concentration of share ownership may adversely affect the trading price for Aequus' Common Shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. As a result, these shareholders, if they acted together, could significantly influence all matters requiring approval by Aequus' shareholders, including the election of directors and the approval of mergers or other business combination transactions. These shareholders may be able to determine all matters requiring shareholder approval. The interests of these shareholders may not always coincide with Aequus' interests or the interests of other shareholders. This may also prevent or discourage unsolicited acquisition proposals or offers for Aequus' Common Shares that other shareholders may feel are in their best interest and Aequus' large shareholders may act in a manner that advances their best interests and not necessarily those of other shareholders, including seeking a premium value for their Common Shares, and might affect the prevailing market price for Aequus' Common Shares.

Future sales of shares of Aequus' Common Shares by its existing shareholders could cause Aequus' share price to decline.

Subject to compliance with applicable securities laws, Aequus' officers, directors and significant shareholders may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by Aequus' officers, directors and significant shareholders or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

As a venture issuer, Aequus is not required to make representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting.

In contrast to the certificate required for non-venture issues under NI 52-109, the certifying officers of Aequus, as a venture issuer, are not required to make representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"), as defined in NI 52-109. In particular, the certifying officers of Aequus are not required to make any representations that they have:

(i) designed, or caused to be designed, DC&P to provide reasonable assurance that information required to be disclosed by Aequus in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) designed, or caused to be designed, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Aequus' GAAP.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Aequus has never paid dividends on Aequus' Common Shares and Aequus does not anticipate paying any dividends in the foreseeable future. Consequently, any gains from an investment in Aequus' Common Shares will likely depend on whether the price of Aequus' Common Shares increases.

Aequus has not paid dividends on Aequus' Common Shares to date and Aequus currently intends to retain Aequus' future earnings, if any, to fund the development and growth of Aequus' business. As a result, capital appreciation, if any, of Aequus' Common Shares will be your sole source of gain for the foreseeable future. Consequently, in the

foreseeable future, you will likely only experience a gain from your investment in Aequus' Common Shares if the price of Aequus' Common Shares increases.

If equity research analysts do not publish research or reports about Aequus' business or if they issue unfavorable commentary or downgrade Aequus' Common Shares, the price of Aequus' Common Shares could decline.

The trading market for Aequus' Common Shares will rely in part on the research and reports that equity research analysts publish about Aequus and Aequus' business. Aequus does not control these analysts. The price of Aequus' Common Shares could decline if one or more equity analysts downgrade Aequus' Common Shares or if analysts issue other unfavorable commentary or cease publishing reports about Aequus or Aequus' business.

Anti-takeover provisions could discourage a third party from making a takeover offer that could be beneficial to Aequus' shareholders.

Some of the provisions in Aequus' Articles could delay or prevent a third party from acquiring Aequus or replacing members of Aequus' board of directors (the "**Board**"), even if the acquisition or the replacements would be beneficial to Aequus' shareholders. Such provisions include that Aequus' Board can, without shareholder approval, issue Class A Preferred Shares having any terms, conditions, rights and preferences that the Board determines.

These provisions could also reduce the price that certain investors might be willing to pay for Aequus' securities and result in the market price for Aequus' securities, including the market price for Aequus' Common Shares, being lower than it would be without these provisions.

DIVIDEND POLICY

The Company has not, since its inception, declared or paid any dividends on its Common Shares. The declaration of dividends on our Common Shares is within the discretion of the Board and will depend on the assessment of, among other factors, capital requirements, earnings, and the operating and financial condition of the Company. At the present time, Aequus' anticipated capital requirements are such that Aequus follows a policy of retaining all available funds and any future earnings in order to finance Aequus' technology advancement, business development and corporate growth. Aequus does not intend to declare or pay cash dividends on its Common Shares within the foreseeable future. See "*Risk Factors – Risks Related to Ownership of Aequus' Common Shares – Aequus has never paid dividends on Aequus' Common Shares and Aequus does not anticipate paying any dividends in the foreseeable future*".

CAPITAL STRUCTURE

As of the date of this annual information form, the authorized capital of the Company consisted of an unlimited number of Common Shares without par value and an unlimited number of Class A Preferred shares (the "**Class A Preferred Shares**") without par value. The Company had 71,065,021 Common Shares and no Class A Preferred Shares issued and outstanding, as of the date of this annual information form.

Common Shares

Each Common Share entitles the holder thereof to one vote at any meeting of our shareholders. The holders of Common Shares are entitled to receive if, as and when declared by the Board, dividends in such amounts as shall be determined by the Board. After the holders of Class A Preferred Shares have first received from the property and assets of the Company the amount they are entitled to, the holders of Common Shares have the right to receive the Company's remaining property and assets in the event of a liquidation, dissolution or winding-up, whether voluntary or involuntary.

Class A Preferred Shares

Each Class A Preferred Share entitles the holder thereof to one vote at any meeting of Aequus shareholders. The Class A Preferred Shares are entitled to priority over the Common Shares with respect to the distribution of assets of the

Company in the event of any liquidation, dissolution or winding up of the Company's affairs, whether voluntary or involuntary.

MARKET FOR SECURITIES

The Company's Common Shares trade on the TSX-V under the symbol "AQS" and on the OTCOB® Venture Marketplace exchange in the United States under the symbol "AQSZF".

The following table sets forth, for the periods indicated, the reported high and low prices (in Canadian dollars) and volume traded on the TSX-V.

Month	Monthly High Price ($)	Monthly Low Price ($)	Monthly Volume
January 2016	0.69	0.46	943,453
February 2016	0.52	0.465	496,017
March 2016	0.53	0.42	664,203
April 2016	0.53	0.45	368,645
May 2016	0.47	0.35	650,740
June 2016	0.46	0.38	928,614
July 2016	0.40	0.30	468,775
August 2016	0.40	0.30	258,488
September 2016	0.440	0.240	3,488,765
October 2016	0.430	0.315	1,941,751
November 2016	0.350	0.240	902,641
December 2016	0.315	0.200	1,456,491

PRIOR SALES

This table sets out particulars of the Common Shares and securities exercisable for or exchangeable into Common Shares issued during the year ended December 31, 2016.

Date of Issuance/Grant	Type of Security	Number of Securities Issued	Issue/Exercise Price
January 12, 2016	Common Shares(1)	5,297,422	$0.50
April 21, 2016	stock options	900,000	$0.47
July 22, 2016	stock options	150,000	$0.35
September 13, 2016	Common Shares(2)	9,146,400	$0.30
October 3, 2016	Common Shares(3)	153,072	$0.365
November 3, 2016	stock options	400,000	$0.31
December 2, 2016	stock options	500,000	$0.27

Notes:

(1) Issued to investors in connection with the January 2016 Financing.
(2) Issued to investors in connection with the September 2016 Financing.
(3) Issued in connection with the Camargo Service Agreement.

ESCROWED SECURITIES

The following sets out the securities of the Company that, to the knowledge of the Company, were held in escrow or are subject to contractual restrictions on transfer as of December 31, 2016:

	Number and type of securities held in escrow	Percentage of Class as of December 31, 2016
	3,200,000 Common Shares[(1)]	4.5%
	1,176,000 Common Shares[(2)]	2%
	9,174,206 Common Shares[(3)]	12.9%
Total:	12,110,206 Common Shares[(4)]	17%[(4)]

Notes:

(1) Held in escrow pursuant to the Northview Escrow Agreement (as defined below).
(2) Held in escrow pursuant to the TeOra Escrow Agreement (as defined below).
(3) Held in escrow pursuant to the TSX Escrow Agreement (as defined below).
(4) Totals do not sum as 1,440,000 Common Shares were subject to escrow under both the Northview Escorw Agreement and the TSX Escrow Agreement.

3,200,000 Common Shares were held in escrow pursuant to an escrow agreement (the "**Northview Escrow Agreement**") among certain shareholders of the Company (the "**Founders**"), Northview Ventures and Associates General Partnership ("**Northview**") and Computershare Trust Company of Canada ("**Computershare**"), as escrow agent. The 3,200,000 Common Shares held under the Northview Escrow Agreement will remain in escrow until the earlier of (i) October 1, 2018; and (ii) the date that Northview exercises any or all of the call options previously granted by each of the Founders to Northview to purchase any or all of such Common Shares.

1,176,000 Common Shares were held in escrow pursuant to an escrow agreement (the "**TeOra Escrow Agreement**") dated July 28, 2015 among the Company, Ian Richard Ball, Marina Charlotte Massingham and Computershare, as escrow agent. Of the 1,176,000 Common Shares held in escrow: (i) 840,000 will be released to Mr. Ball and Ms. Massingham in two equal installments on the second and third anniversary of July 28, 2015; and (ii) 336,000 Common Shares were to be released from escrow to Mr. Ball and Ms. Massingham based on the Company's achievement of certain milestones. Subsequent to December 31, 2016, the 336,000 Common Shares held in escrow for Mr. Ball and Ms. Massingham were forfeited as the performance milestone with a December 31, 2016 deadline was not achieved.

9,174,206 Common Shares were held in escrow pursuant to an escrow agreement (the "**TSX Escrow Agreement**") among the Company, certain shareholders of the Company and Computershare, as escrow agent, in connection with the Company's initial TSX-V listing. The 9,174,206 Common Shares under escrow will be released in equal intervals on the six month anniversaries of the Company's listing on the TSX-V, which occurred on March 17, 2015. As of December 31, 2016, 1,440,000 Common Shares held under the TSX Escrow Agreement were also subject to the Northview Escrow Agreement described above. As of December 31, 2016, 11,212,919 of the original 20,387,125 Common Shares held in escrow under the TSX Escrow Agreement had been released. On March 17, 2017, an additional 3,058,069 Common Shares were released from escrow pursuant to the TSX Escrow Agreement, 480,000 of which remained subject to escrow under the Northview Escrow Agreement.

EXECUTIVE OFFICERS AND DIRECTORS

The following sets forth the names and province or state and country of residence of our directors and executive officers, the offices held by them in the Corporation and their principal occupations during the last five years as at December 31, 2016. The term of each director expires on the date of our next annual meeting.

Name, Province of Residence and Position with Aequus	Director Since	Position and Principal Occupation in the Past Five Years [1]
Douglas Glen Janzen British Columbia, Canada Director, President, Chairman and Chief Executive Officer	January 3, 2013	Director and President, Aequus Pharmaceuticals Inc. (January 3, 2013 – Present); Chief Executive Officer and Chairman, Aequus Pharmaceuticals Inc. (December 10, 2014 – Present); President, Northview Venture Inc. (November 1, 2012 – Present), Managing Director, Northview Venture and Associates General Partnership (April 1, 2014 – Present); Chief Executive Officer, President and Director, Cardiome Pharma Corp. (2003-2012)
Anne Michelle Stevens British Columbia, Canada Director, Vice President, Corporate Development, and Corporate Secretary	December 10, 2014	Corporate Secretary, Aequus Pharmaceuticals Inc. (December 10, 2014 – Present); Chief Operating Officer, Aequus Pharmaceuticals Inc. (July 13, 2015 – Present); Director, Aequus Pharmaceuticals Inc. (October 20, 2014 – Present); Vice President, Corporate Development, Aequus Pharmaceuticals Inc. (October 20, 2014 – July 13, 2015); Commercial Lead, New Project Development, Aequus Pharmaceuticals Inc. (January 1, 2013 – December 10, 2014); President, Crecera Consulting Inc. (August 1, 2012-Present); Senior Partner, Northview Venture and Associates General Partnership (April 1, 2014 – Present); Corporate and External Affairs Analyst, Cardiome Pharma Corp. (2010-2012)
Ann Fehr[2] British Columbia, Canada Chief Financial Officer	N/A	Chief Financial Officer, Aequus Pharmaceuticals Inc. (July 22, 2016 – Present) Professional accountant and consultant at Fehr & Associates (December 5, 2010 – present).
Dr. Don McAfee Point Roberts, Washington, USA Acting Chief Scientific Officer	N/A	Chief Scientific Officer, Aequus Pharmaceuticals Inc. (October 20, 2014 – Present); Independent Scientific Consultant (2012 – Present); Chief Scientific Officer, Cardiome Pharma Corp. (2004 – 2012)
Ian Ball Bermingham, England Chief Commercial Officer	N/A	Chief Commercial Officer, Aequus Pharmaceuticals Inc. (July 28, 2015 – Present); Chief Executive Officer (January 2015 to July 2015); and Global Head, Brand Maximization (December 2008 to December 2014)
Dr. Fotios Plakogiannis NY, USA Director	January 3, 2013	Chairman of the Board, Aequus Pharmaceuticals Inc. (February 25, 2013 –December 10, 2014); Director, Aequus Pharmaceuticals Inc. (January 3, 2014 – Present); Retired Professor of Pharmacy, Long Island University (1967 – 2011); President, Transdermal Pharma Research Laboratories LLC (2013 – Present)

Name, Province of Residence and Position with Aequus	Director Since	Position and Principal Occupation in the Past Five Years [(1)]
Rodoula Plakogiannis NY, USA Director	October 20, 2014	Associated Professor of Pharmacy Practice, Long Island University (2002 – Present); Director, Transdermal Pharma Research Laboratories LLC (2013 – Present)
Chris Clark [(3)(4)] British Columbia, Canada Director	December 18, 2014	Chief Financial Officer, Neovasc Inc. (April 2007 – Present)
Jason Flowerday [(3)] Ontario, Canada Director	January 29, 2014	Independent consultant (February 2016 – Present); Chief Executive Officer, Pro Bono Bio Inc. (February 2015 – February 2016); Vice President Commercial Operations, Knight Therapeutics Inc. (September 2014 – February 2015); Owner and Chief Commercial Officer, Orphan Canada (January 2010 – August 2014); Owner and Vice President, RxMedia Healthcare Communications (September 2006 – March 2014)
Hamed Shahbazi [(3)] British Columbia, Canada Director	March 16, 2015	Chief Executive Officer, TIO Networks Corp. (February 10, 2000 to Present); President, TIO Networks Corp (January 31, 2000 to Present), Director (August 1997 – Present)

Notes:
(1) All of the directors' appointments expire at the next annual meeting of the shareholders of the Company.
(2) Ms. Fehr was appointed as CFO of the Company on July 22, 2016 in connection with the resignation of Christina Yip, the Company's former CFO.
(3) Member of the Audit Committee.
(4) Chair of the Audit Committee.

Biographies

The information provided below has been provided to us by the individuals themselves and has not been independently verified by us.

Douglas Glen Janzen, President, Chief Executive Officer and Chairman of the Board

Mr. Janzen has over 20 years of experience in life sciences with leadership experience in corporate finance, business development and management. Mr. Janzen is currently Co-Founder and Managing Director of NorthView Ventures and Associates General Partnership; President, Chairman and CEO of Aequus Pharmaceuticals Inc.; and serves on the Boards of Aequus Pharmaceuticals Inc., AbCellera Inc.(Chairman), Ico Therapeutics Inc., Perimeter Medical Imaging Inc. (Chairman), Renaissance Biosciences Corp. and Synaptive Technologies, Inc. Mr. Janzen is responsible for the management of the Company, developing objectives, strategy and standards of performance, securing and leading a team of professionals and directing them to deliver the required performance. As the Chairman of the Board, Mr. Janzen is responsible for the management of the Board to ensure the Company has appropriate objectives and an effective strategy, and that it is operating in accordance with a high standard of corporate governance. Mr. Janzen is past Chair of LifeSciences BC, has served as a Director with Biotech Canada and is a past winner of Business in Vancouver's "Top 40 Under 40 Award".

Anne Michelle Stevens, BSc, MHA, Chief Operating Officer, Corporate Secretary, and Director

Ms. Stevens has over ten years of progressive experience in the Pharmaceutical, Biotech, and Medical Device industry. Ms. Stevens is the Co-Founder and Senior Partner of Northview, an entity which invests in and provides strategic

advisory services to a number of life sciences companies. Ms. Stevens will be responsible for overseeing the business development and investor relations function and matters related to human resources and facilities for the Company. Previously, Ms. Stevens served as the VP of Corporate Development for Aequus and as Corporate and External Affairs Analyst for Cardiome Pharma Corp., where she was responsible for strategic planning and value analysis of internal R&D. Ms. Stevens' earlier experience includes five years with Bayer HealthCare, where she was responsible for the commercial success and business development of a portfolio of products within several key therapeutic areas. Ms. Stevens holds a Bachelor of Science degree and Master of Health Administration degree from University of British Columbia.

Ann Fehr, CPA, CGA, Chief Financial Officer

Ms. Fehr is the Principal at Fehr & Associates, and has held a number of senior level positions including having served as CFO of Carrus Capital Corporation (formerly BioWest Therapeutic Inc.), Global Minerals Ltd., and other companies listed on the TSX. During the course of her management and consulting career, Ms. Fehr has worked with a number of companies through significant change and corporate milestones such as public listing applications, mergers and acquisitions, as well as strategic planning and execution. Ms. Fehr is also an active volunteer in the community. Since 2013, she has been Treasurer and a Director for the Boys and Girls Clubs of South Coast BC.

Dr. Don McAfee, PhD, Acting Chief Scientific Officer

Dr. McAfee has a Ph.D. degree in Physiology from the University of Oregon School of Medicine. His academic and faculty appointments include Yale University School of Medicine; University of Miami School of Medicine; and Chairman Neurosciences, Beckman Research Institute, City of Hope Medical Center. Dr. McAfee also holds adjunct faculty appointments at Medical College of Virginia; University of California School of Medicine, Irvine; and the University of British Columbia. Dr. McAfee has also been an Honorary Professor in the Department of Anesthesiology, Pharmacology, and Therapeutics at the University of British Columbia since 2012. His industry positions include VP Research, Whitby Research and Development; Founder, CEO and Chief Technology Officer of Discovery Therapeutics; and Chief Scientific Officer of Cardiome Pharma Corp. Dr. McAfee is responsible for participating in Aequus' research and development, and with the assessment and review of business and scientific matters. Dr. McAfee led the preclinical development and initial clinical development of eight NCEs, three of which completed clinical development and two are now marketed. One of these products is Neupro, a transdermal patch for the treatment of Parkinson's disease and Restless Legs Syndrome, now marketed worldwide. Dr. McAfee intends to devote approximately 40% of his time to the affairs of the Company.

Ian Ball, Chief Commercial Officer

Mr. Ball a seasoned pharmaceutical executive with over 20 years of experience and a proven track record of leading multinational organizations. He is a recognized leader in life cycle management with a background in both branded and generic pharmaceuticals. As the Global Head of Brand Maximization and Life Cycle Strategy of Novartis International AG, he was responsible for leading the organization through the recent patent losses of both Diovan® and Gleevec®, generating incremental value of over $400 million. Mr. Ball also led the global strategy for life-cycle management across the entire Novartis portfolio with total revenues up to $42 billion.

Prior to joining Aequus, Mr. Ball served as CEO and founder of TeOra, a specialty pharma company with a focus on ophthalmology and transplant. TeOra was acquired by the Company in July 2015. Mr. Ball holds a Bachelor of Engineering, Management of Manufacturing from Birmingham City University, England.

Dr. Fotios Plakogiannis, BSc, MS, PhD, Director

Dr. Plakogiannis served the Arnold & Marie Schwartz College of Pharmacy for over 45 years and for 25 years was the Director of the Division of Pharmaceutical Sciences of the College. He was instrumental in establishing the Scientific Graduate Division (MS and Ph.D. program) and was the recipient of the TASA Award for Lifetime Achievement at LIU, Founders Award, etc., among other prestigious awards. Dr. Plakogiannis has authored three books and more than 100 research papers with the majority in the area of Transdermal Delivery. He has mentored more than 200 MS and Ph.D. degrees, served as chair of the Academy of Pharmaceutical Sciences Basic

Pharmaceutics Section, and has presented his work in the USA and Europe. Dr. Plakogiannis has been a visiting professor in a number of universities, including but not limited to Kentucky University and the University of Arizona. In addition, he has served as a consultant for the pharmaceutical industry and has served as an expert witness in a number of cases. Dr. Plakogiannis holds a Diploma from University of Athens (Greece), a Master of Science degree from Ohio State University and Doctor of Philosophy from the University of Southern California.

Rodoula Plakogiannis, PharmD, BCPS, CLS, FNLA, Director

Dr. Plakogiannis has been an Associate Professor of Pharmacy Practice at the Arnold & Marie Schwartz College of Pharmacy since 2002, and Adjunct Associate Professor at NYU Langone Medical Center since 2011. She received both her Bachelor of Science in Pharmacy and traditional Doctor of Pharmacy degrees from the Arnold & Marie Schwartz College of Pharmacy & Health Sciences. Dr. Plakogiannis completed an ASHP-accredited specialized pharmacy residency in primary care at the Bay Pines Veterans Medical Center in Tampa, Fl. She is a Board Certified Pharmacotherapy Specialist, a Diplomat and Fellow of the Accreditation Council for Clinical Lipidology, and a Board Certified Clinical Lipid Specialist. She serves as one of the Board of Directors for the Northeastern Lipid Association and on the Accreditation Council for Clinical Lipidology's Board of Governors. She also serves as the Adverse Drug Reactions Section Editor for the Journal of Pharmacy Practice. Dr. Plakogiannis has presented on a national level in addition to local seminars, and has been invited to serve as a consultant at the Aegerion and Amarin Lipid Pharmaceuticals Advisory Board meetings, among others. Dr. Plakogiannis holds a Doctor of Pharmacy degree and Bachelor of Science in Pharmacy degree from Long Island University.

Chris Clark, BA (Honours), PgD, CA, Director

Mr. Clark has over 20 years finance and accounting experience in public practice and in public and private companies, most recently focused in the medical device sector. Previous experience includes financial leadership roles with large automotive and telecom firms in which he developed deep expertise in the development and management of sophisticated financial systems. A highly sought after consultant for biotechnology start-ups, Mr. Clark accepted the role of Chief Financial Officer at Neovasc Inc. ("**Neovasc**"), a medical device company that develops, manufactures, and markets products for the cardiovascular marketplace**,** and was instrumental in the initial and ongoing development of Neovasc as a publicly traded company. He received his designation as a Chartered Accountant from the Institute of Chartered Accountants of England and Wales and articled with KPMG before moving to Canada from England in 1998. He has an honors degree in Economics from Swansea University and a post graduate diploma from Keble College, Oxford.

Jason Flowerday, MBA, BSc (Honours), Director

Mr. Flowerday is a highly respected business leader with two decades of executive life sciences management and startup experience. For over a decade, Mr Flowerday was groomed at Bayer and JnJ before he expanded his successful career into leading specialty pharmaceutical, biotech and device companies in their pursuit of growth and capital. He has consistently developed his entrepreneurial drive and governance expertise, and has been a passionate leader and champion for change. Mr Flowerday currently serves as director and independent consultant to companies which allows him to leverage his network and apply his specialty pharma experience. Mr. Flowerday was most recently the Chief Executive Officer of Pro Bono Bio Inc. He served as Vice President Commercial Operations of Knight Therapeutics Inc. ("**Knight**") following the successful sale of his company, Orphan Canada, to Knight in 2014. In his role as founder and Chief Commercial Officer of Orphan Canada, Mr. Flowerday funded and led the company through in-licensing and commercializing of its lead products which dealt with genetic and rare diseases. Prior to founding Orphan Canada, Mr. Flowerday established RxMedia Healthcare Communications, leading the Company through a period of sustained growth and expansion. Mr. Flowerday holds a Bachelor of Science (Honours) from the University of Toronto and a Masters of Business Administration from Queen's University.

Hamed Shahbazi, BSc, Director

Mr. Shahbazi is the Chief Executive Officer and founder of TIO Networks Corp. Mr. Shahbazi founded TIO Networks as a solution provider in the self-service automated kiosk marketplace and has transitioned the company into a payment solution provider that specializes in delivering bill payment and other financial services through a variety of automated

self-service, retail, POS, mobile and web-based methodologies. TIO Networks now processes more than $1 billion and supports more than 15 million transactions per year for individuals in the United States. Mr. Shahbazi is also a former winner of Business in Vancouver's 40 Under 40 Award. Mr. Shahbazi obtained a Bachelor of Applied Science degree in Civil Engineering from the University of British Columbia and has completed Harvard Law's program on Negotiation for Business Executives.

Share Ownership by Directors and Executive Officers

As of April 28, 2017, as a group, the Company's directors and executive officers beneficially owned, directly or indirectly, or exercised control over 16,176,264 Common Shares, representing approximately 22.7% of the issued and outstanding Common Shares as of May 1, 2017.

CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES AND SANCTIONS

Except as disclosed below, no director or executive officer of Aequus is, as at the date of this annual information form, or was within 10 years before the date of this annual information form, a director, chief executive officer or chief financial officer of any company (including Aequus), that was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days:

(a) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

With respect to Ann Fehr, CFO: On September 27, 2010, Global Uranium Corporation became subject to a cease trade order as a result of failure to file a complaint NI 43-101 technical report. SRK Consulting (Canada) Inc. then prepared a compliant NI 43-101 Technical Report which was then filed on SEDAR and the Cease Trade Order was subsequently revoked. The cease trade order was lifted in all jurisdictions on June 6, 2011. Ms. Fehr was Chief Financial Officer at the relevant time.

No director or executive officer of Aequus, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of Aequus:

(a) is, as at the date of this annual information form, or has been within the 10 years before the date of this annual information form, a director or executive officer of any company (including Aequus) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this annual information form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of Aequus, or a shareholder holding a sufficient number of securities of Aequus to affect materially the control of Aequus, has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Other than as disclosed herein, none of our directors, officers or principal shareholders and no associates or affiliates of any of them, have or have had any material interest in any transaction which materially affects us. There are potential conflicts of interest to which our directors and officers will be subject in connection with our operations. In particular, certain of our directors are involved in managerial and/or director positions with other companies whose operations may, from time to time, be in direct competition with our operations or with entities which may, from time to time, provide financing to, or make equity investments in, our competitors. See "*Risk Factors – Risks Related to Aequus' Business Operations and Industry – The directors and officers of Aequus may be subject to conflicts of interest*".

Conflicts, if any, will be subject to the procedures and remedies available under the BCBCA. The BCBCA generally provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the BCBCA.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding material legal proceedings or regulatory actions to which we are a party, nor, to our knowledge, are any material legal proceedings or regulatory actions contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described elsewhere in this annual information form, none of our directors, executive officers or shareholders, owning or exercising control or direction over more 10% of the Common Shares, or any associate or affiliate of the foregoing, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to the date of this annual information form that has materially affected us or is reasonably expected to materially affect the Company.

AUDITOR, TRANSFER AGENT, WARRANT AGENT AND REGISTRAR

The auditor of the Company is Crowe MacKay LLP at its offices located at 1100 - 1177 West Hastings Street, Vancouver, British Columbia, V6E 4T5. Crowe MacKay LLP is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

As of the date of this annual information form, the registrar and transfer agent of the Company is Computershare Investor Services Inc. at its offices in Vancouver, British Columbia. Computershare Trust Company of Canada, at its principal offices in Vancouver, British Columbia, is the Warrant Agent for the Warrants under the Warrant Indenture.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, as of date of this annual information form, the only material contracts which the Company has entered into are set out below.

1. Warrant Indenture;

2. Underwriting Agreement;

3. Agency Agreement;

4. Supernus Agreement;

5. IP Assignment Agreement;

6. Collaboration Agreement;

7. License Agreement; and

8. Corium Development Agreement.

INTEREST OF EXPERTS

The Company's auditor, Crowe MacKay LLP, has audited the Company's financial statements as at December 31, 2016, 2015 and 2014. Crowe MacKay LLP has confirmed that they are independent from the Company in accordance with the Chartered Professional Accountants Rules of Professional Conduct in British Columbia, Canada.

AUDIT COMMITTEE

The Company has formed an Audit Committee (the "**Audit Committee**"). The Audit Committee is comprised of Chris Clark (Chair of the Audit Committee), Jason Flowerday and Hamed Shahbazi, all of whom are financially literate as such term is defined in NI 52-110. Mr. Flowerday and Mr. Shahbazi are considered independent pursuant to NI 52-110. Mr. Clark is not considered independent. A description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member may be found above under the heading "*Executive Officers and Directors – Biographies*".

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the financial management and external auditors of the Company. The Audit Committee will also review the annual audited financial statements and make recommendations to the Board. The Company is relying on the exemption set out in section 6.1 of NI 52-110. A copy of the Audit Committee's charter is set out below.

Audit Committee Charter

I. Purpose

The main objective of the Audit Committee is to act as a liaison between the Board and the Company's independent auditors and to assist the Board in fulfilling its oversight responsibilities with respect to the financial statements and other financial information provided by the Company to its shareholders and others.

II. Organization

The Audit Committee shall consist of three or more Directors and shall satisfy the laws governing the Company and the independence, financial literacy, expertise and experience requirements under applicable securities law, stock exchange requests and any other regulatory requirements applicable to the Audit Committee of the Company.

The members of the Audit Committee and the Chair of the Audit Committee shall be appointed by the Board. A majority of the members of the Audit Committee shall constitute a quorum. A majority of the members of the Audit Committee shall be empowered to act on behalf of the Audit Committee. Matters decided by the Audit Committee shall be decided by majority votes.

Any member of the Audit Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Audit Committee as soon as such member ceases to be a Director.

The Audit Committee may form and delegate authority to subcommittees when appropriate.

III. Meetings

The Audit Committee shall meet as frequently as circumstances require.

The Audit Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Audit Committee.

The Company's accounting and financial officer(s) and independent auditors shall attend any meeting when requested to do so by the Chair of the Audit Committee.

IV. Responsibilities

1. The Audit Committee shall recommend to the Board:

   (c) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and

   (d) the compensation of the external auditor.

2. The Audit Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.

3. The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditor.

4. The Audit Committee must review the Company's financial statements, MD&A and annual and interim earnings press releases before the Company publicly discloses this information.

5. The Audit Committee must be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in subsection (4), and must periodically assess the adequacy of those procedures.

6. The Audit Committee must establish procedures for:

   (e) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

   (f) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

7. An audit committee must review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer.

V. Authority

The Audit Committee shall have the following authority:

   (g) to approve interim financial statements,

   (h) to engage independent counsel and other advisors as it determines necessary to carry out its duties,

   (i) to set and pay the compensation for any advisors employed by the Audit Committee, and

   (j) to communicate directly with the external auditors.

Relevant Education and Experience

See heading "*Executive Officers and Directors – Biographies*" above for a description of the education and experience of each of the members of the Audit Committee that is relevant to their performance as an audit committee member, in particular, any education or experience that would provide the member with:

(k) an understanding of the accounting principles used by the issuer to prepare its financial statements, and the ability to assess the general application of those principles in connection with estimates, accruals and reserves;

(l) experience preparing, auditing, analysing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the issuer's financial statements, or experience actively supervising individuals engaged in such activities; and

(m) an understanding of internal controls and procedures for financial reporting.

Audit Committee Oversight

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Company's Board.

Reliance on Certain Exemptions

Since the effective date of NI 52-110, the Company has not relied on the exemptions contained in section 2.4 or Part 8 of NI 52-110. Section 2.4 provides an exemption from the requirements that the Audit Committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the fiscal year in which the non-audit services were provided. Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

Pre-Approval Policies and Procedures

The Audit Committee has authority and responsibility for pre-approval of all non-audit services to be provided to the Company or its subsidiary entities by the external auditors or the external auditors of the Company's subsidiary entities, unless such pre-approval is otherwise appropriately delegated or if appropriate specific policies and procedures for the engagement of non-audit services have been adopted by the Audit Committee.

Exemption

The Company is relying upon the exemption in section 6.1 of NI 52-110 in respect of its reporting obligations under NI 52-110 for the year ended December 31, 2016.

External Auditor Service Fees by Category

In connection with the Company's last fiscal year end, the Company incurred audit fees as set out in the table below. In the table, "audit fees" are fees billed by the Company's external auditor for services provided in auditing the Company's annual financial statements. "Audit-related fees" are fees not included in audit fees that are billed by the auditor for assurance and related services that are reasonably related to the performance of the audit review of the Company's financial statements. "Tax fees" are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning. "All other fees" are fees billed by the auditor for products and services not included in the foregoing categories. All amounts in the table are expressed in Canadian dollars.

Financial Year Ending	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
December 31, 2015	$22,500	$32,400	$Nil	$Nil
December 31, 2016	$22,010	$26,106	$1,734	$Nil

ADDITIONAL INFORMATION

Additional information relating to us may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, the Company's principal shareholders, and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's most recently filed management information circular available on SEDAR at www.sedar.com.

Additional financial information is provided in our consolidated financial statements and management's discussion and analysis for the financial year ended December 31, 2016.