

TRANSITION THERAPEUTICS INC.

**2016 SECOND QUARTER
FINANCIAL REPORT**

This page is intentionally left blank.

TO OUR SHAREHOLDERS

In the second quarter of fiscal 2016 and shortly thereafter, the Company announced important findings that will guide the future of its two lead development programs. For ELND005, the Company held an Investor Day in November to provide an update on the analysis of the Phase 2/3 study completed in June 2015. This update outlined a population of more severely agitated patients that in a post-hoc analysis demonstrate a significant clinical benefit versus placebo on the primary efficacy endpoint, NPIC A+A. These findings support further development of ELND005 and the Company's subsidiary, Transition Therapeutics Ireland Limited ("TTIL") will be meeting with regulators to formulate the clinical development path to NDA. For TT401, the Company announced the top line results of a 420-patient Phase 2 study performed by development partner Lilly. In the study, all doses of TT401 showed statistically significant improvements on HbA1c (a measure of blood glucose levels) relative to placebo at 12 weeks and 24 weeks from baseline. Further, the percentage of weight loss in the highest dose TT401 arm (50mg) was statistically significant relative to the active comparator arm (2mg exenatide extended release). These data suggest that that TT401 has a product profile competitive with the currently approved GLP-1 single agonist products. The Company will await notice from Lilly on their decision to continue development or transfer all rights to the TT401 drug candidate to Transition. A decision from Lilly is expected within the next 90 days. In addition, preparations for the commencement of a TT701 Phase 2 study are near completion with the first patient dosing to occur in calendar Q1 2016.

Neuropsychiatric Drug Candidate ELND005

As our shareholders are aware, agitation and aggression behaviors in Alzheimer's disease ("AD") are a key factor leading to caregivers deciding to institutionalize their loved ones with AD. Agitation and aggression also create substantial stress and burden for caregivers and can result in poor health outcomes for the caregivers themselves. Further, medications currently used by default lack consistent evidence of benefit but are well known to cause dangerous and troublesome side effects in these AD patients.

It is the context of this clinical need and the ELND005 product profile that support the development of ELND005 as a therapy. Following the review of the Phase 2/3 data announced in November 2015, three conclusions were clear: (a) ELND005 significantly improved agitation and aggression in a sub-population of Alzheimer's disease patients with more severe agitation and aggression symptoms; (b) In this population, ELND005 demonstrated numerical improvement in 20 of 21 behavioral symptoms measured as part of primary efficacy endpoint; and (c) ELND005 demonstrated an acceptable safety and tolerability profile.

For caregivers in a home setting, assisted living facilities or other institutions caring for AD patients, having safe and tolerable therapies for those with the more severe agitation and aggression behaviors can make significant impact on the AD patients, caregivers and other residents at institutions.

TTIL has been diligently compiling the appropriate documentation to engage regulators for guidance on an ELND005 Phase 3 program in AD patients with more severe symptoms of agitation and aggression.

Type 2 Diabetes Drug Candidate TT401

Subsequent to the end of fiscal Q2 2016, Transition announced the top line results of the Phase 2 study of TT401 in 420 Type 2 diabetes subjects. The study included four dose arms of TT401, a placebo arm, and an active comparator (2mg exenatide extended release) and was performed by TT401 development partner, Lilly. The study duration was 24 weeks with a 12-week randomized blinded stage followed by a 12-week open-label stage.

TT401 demonstrated HbA1c improvements of up to -1.43% (similar to the exenatide arm). All TT401 dose arms and the exenatide arm were statistically significant relative to the placebo arm at Weeks 12 and 24. TT401 also produced dose dependent weight loss (up to -3.3 kg). The weight loss observed in the highest dose arm (50mg of TT401) was statistically significant relative to both the placebo and exenatide arms at weeks 12 and 24.

TO OUR SHAREHOLDERS

In the study, TT401 appeared to have an acceptable safety and tolerability profile. There were a similar number of study discontinuations and serious adverse events between the TT401 dose arms and the exenatide arm. The most frequently observed adverse events were gastrointestinal; these were generally classified as mild to moderate and diminished over time.

Lilly will inform Transition of their decision to further develop TT401 approximately over the next ninety days. Should Lilly continue TT401 development, Transition would be eligible to receive a US\$15 million milestone payment as well as future milestone payments and royalties. Otherwise, Transition may elect to assume development and commercialization rights to TT401. This option allows Transition to pursue TT401 development on its own or with a third party, subject to future royalty payments to Lilly.

SARM Drug Candidate TT701

Prostate cancer, in most men, is characterized as a very slow advancing cancer, certainly relative to other cancers. Because of this, many clinicians advise patients to pursue the approach of active surveillance via regular interval PSA blood tests, digital rectal exams, and ultrasounds. Faced with a prostate cancer diagnosis however, some men feel they are willing to accept the risk of side effects and opt for surgery or radiation therapy. These approaches can reduce testosterone levels and can contribute to negative outcomes including sexual dysfunction, loss of muscle mass and increase of fat mass that can persist for the remainder of a patient's life. Unfortunately, testosterone therapy is not recommended for prostate cancer patients due to the risk of potentially stimulating cancer growth. However, the properties of TT701 (a selective androgen receptor modulator) to interact with androgen receptors like testosterone, but not interact with the prostate, may provide a unique new approach for the population of patients that live with the side effects of prostate cancer therapy.

The Company has been working closely with Dr. Shalender Bhasin, Director of the Research Program in Men's Health: Aging and Metabolism at Brigham and Womens Hospital and an internationally recognized endocrinologist with expertise in testosterone biology and men's aging. Dr. Bhasin will be the principal investigator of an investigator-led study of TT701 in approximately 125 individuals that have previously undergone a radical prostatectomy procedure. The manufacturing and associated activities to begin the Phase 2 study are now completed and the next step will be the dosing of the first patient which is expected this quarter.

Looking Ahead

The last eight months have seen data readouts for the lead programs of neuropsychiatric drug candidate ELND005 and type 2 diabetes drug candidate TT401. The data from each of these studies have refined and focused the development path for each program. In the coming months, we expect to receive feedback from the FDA on the Phase 3 clinical development of ELND005 for agitation and aggression. With this guidance, TTIL will evaluate the next steps to advance ELND005 toward completing the activities necessary for an NDA submission. On the TT401 program, a decision from Lilly to continue the development of the drug candidate is expected in approximately 90 days. Additionally, we anticipate the commencement of the TT701 Phase 2 study this quarter and the Company continues to review potential new drug candidates to expand our development pipeline.

We appreciate the continued support of our shareholders and look forward to providing an update on the progress of these programs in the coming year.



Dr. Tony Cruz
Chairman and CEO, Transition Therapeutics Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six month periods ended December 31, 2015 and the related notes, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for interim financial statements, including IAS 34, Interim Reporting (IFRS), as well as the audited consolidated financial statements for the year ended June 30, 2015, including the notes thereto, prepared in accordance with IFRS, and the annual fiscal 2015 MD&A. This Management's Discussion and Analysis ("MD&A") provides a review of the performance of the Company for the three and six month periods ended December 31, 2015 as compared to the three and six month periods ended December 31, 2014. This review was performed by management with information available as of February 5, 2016.

Where "we", "us", "our", "Transition" or the "Company" is used, it is referring to Transition Therapeutics Inc. and its wholly-owned subsidiaries, unless otherwise indicated. All amounts are in Canadian dollars, unless otherwise indicated.

Additional information relating to the Company, including the Company's most recently filed Annual Information Form, can be found on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward looking statements within the meaning of applicable securities laws. Forward looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "estimate", "intend", "may" or similar words suggesting future outcomes. Forward-looking statements in this MD&A include, but are not limited to statements with respect to: the clinical study phases of the Company's product candidates which the Company expects to complete in fiscal 2016 and beyond; the ability of the Company's business model to maximize shareholder returns; the potential for ELND005 to slow the progression of Alzheimer's disease and improve symptoms; the potential for ELND005 to be effective for the treatment of agitation and or aggression in patients with Alzheimer's disease; the potential for ELND005 to be effective for the treatment of Down syndrome; the timing and manner of future clinical development of ELND005; the global population size of those affected by Alzheimer's disease; the demand for a product that can slow or reverse the progression of Alzheimer's disease; the demand for a product that can reduce the emergence and severity of neuropsychiatric symptoms like depression, anxiety, agitation and aggression in Alzheimer's disease; the potential clinical benefit of ELND005 in the treatment of other disease indications; the development of TT401 and the series of preclinical compounds in-licensed from Eli Lilly and Company ("Lilly") and their potential benefit in type 2 diabetes patients and obese individuals; the timing and manner of future clinical development of TT401 performed by Lilly; TT701 development plans and timelines for individuals with androgen deficiency or other disease indications; the potential clinical benefit of TT701 to increase lean body mass, improve functional and sexual outcomes or improve other symptoms associated with androgen deficiency; the engagement of third party manufacturers to produce the Company's drug substances and products; the potential future in-licensing of additional drug candidates to expand the development pipeline; the intention of the Company to make collaborative arrangements for the marketing and distribution of its products and the impact of human capital on the growth and success of the Company.

This forward-looking information is subject to various risks and uncertainties, including those discussed below, that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is provided as of the date of this MD&A unless otherwise stated, and the Company will not undertake any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events, or otherwise, except as required by securities laws.

Some of the assumptions, risks and factors which could cause future outcomes to differ materially from those set forth in the forward-looking information include, but are not limited to: (i) the assumption that the Company will be able to

MANAGEMENT'S DISCUSSION AND ANALYSIS

obtain sufficient and suitable financing to support operations, clinical trials and commercialization of products, (ii) the risk that the Company may not be able to capitalize on partnering and acquisition opportunities, (iii) the assumption that the Company will obtain favourable clinical trial results in the expected timeframe, (iv) the assumption that the Company will be able to adequately protect proprietary information and technology from competitors, (v) the risks relating to the uncertainties of the regulatory approval process, (vi) the impact of competitive products and pricing and the assumption that the Company will be able to compete in the targeted markets, and (vii) the risk that the Company may be unable to retain key personnel or maintain third party relationships, including relationships with key collaborators.

By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections or other forward-looking statements will not occur. Prospective investors should carefully consider the information contained under the heading "RISKS AND UNCERTAINTIES" as described in the MD&A for the year ended June 30, 2015.

OVERVIEW

Transition is a biopharmaceutical development company, advancing novel therapeutics for CNS and metabolic disease indications. The Company's wholly-owned subsidiary, Transition Therapeutics Ireland Limited ("TTIL") is developing CNS drug candidate ELND005 for the treatment of Alzheimer's disease ("AD") and Down syndrome. Transition's lead metabolic drug candidate is TT401 for the treatment of type 2 diabetes and accompanying obesity.

Highlights for the Company during the six month period ended December 31, 2015 and up to the date of this MD&A include the following:

ELND005:

- **October 28, 2015 – Transition announced that data from the Phase 2/3 clinical study of ELND005 in Alzheimer's disease patients with moderate and severe agitation and aggression was presented at the Clinical Trials in Alzheimer's Disease (CTAD) meeting.** A copy of the CTAD oral presentation is available on the Company website at www.transitiontherapeutics.com;
- **October 15, 2015 – Transition announced that its subsidiary, TTIL, has completed a thorough review of the data related to the Phase 2/3 study of ELND005 in AD patients with moderate or severe agitation and aggression.** The analysis identified a significant clinical benefit of ELND005 in AD patients with severe agitation and aggression, and will serve as the basis for patient selection in a Phase 3 clinical study. The review was performed in consultation with a group of key opinion leaders in the field of neuropsychiatry.

TT401

- **February 1, 2016 – Transition announced the results of a Phase 2 clinical study of drug candidate TT401 (LY2944876) for the treatment of type 2 diabetes.** TT401 is a once-weekly administered oxyntomodulin analog with dual GLP-1 and glucagon agonist activity. TT401 development collaborator Eli Lilly and Company performed the Phase 2 study enrolling 420 type 2 diabetes subjects into a 24 week study consisting of a 12-week randomized blinded stage followed by a 12-week open-label stage. The study included 4 once-weekly dose arms of TT401 (10mg, 15mg, 30mg, 50mg), a placebo arm, and an active comparator arm (exenatide extended release – 2mg). TT401 demonstrated HbA1c improvements of up to -1.43% (similar to the exenatide arm). All TT401 dose arms and the exenatide arm were statistically significant relative to the placebo arm at Weeks 12 and 24. TT401 also produced dose dependent weight loss (up to -3.3 kg). The weight loss observed in the highest dose arm (50mg of TT401) was statistically significant relative to both the placebo and exenatide arms at weeks 12 and 24.

TT701 SARM:

- **October 29, 2015** – Transition announced that its subsidiary, TTIL, has entered into an agreement with Brigham and Women's Hospital ("BWH") for an investigator-led clinical study of drug candidate TT701. TTIL will support a Phase 2 study to evaluate selective androgen receptor modulator (SARM) drug candidate TT701 as a therapy to improve the symptoms of androgen deficiency in men with prostate cancer that have undergone a radical prostatectomy procedure.

STRATEGIC COLLABORATIONS

Perrigo Company plc ("Perrigo")

In 2006, Transition exclusively licensed the ELND005 technology to Elan Pharma International Limited ("Elan") for worldwide development and commercialization. Following amendment of that agreement in 2010, Elan held all development and commercialization rights to ELND005 and Transition became eligible to receive milestone and royalty payments with the successful advancement of ELND005. Transition has received US\$40 million from Elan in upfront and achieved milestone payments. Perrigo acquired Elan in December 2013, including all Elan's rights and obligations to the development of ELND005.

On February 28, 2014, Transition announced that after a series of transactions, Perrigo had transferred all of its ELND005 rights and assets under the collaboration agreement to the Company's wholly owned subsidiary, TTIL. In parallel with this acquisition, Perrigo invested US\$15 million and received 2,255,640 Transition common shares representing approximately a 7% ownership stake in Transition as of the date of the transaction. Perrigo will also be eligible to receive up to US\$40 million in approval and commercial milestone payments and a 6.5% royalty on net sales of ELND005 products and sublicense fees received. Going forward, TTIL is responsible for all future development and commercialization activities of the ELND005 drug candidate.

Lilly

Diabetes

On March 3, 2010, Transition and Lilly entered into a licensing and collaboration agreement granting Transition the rights to a series of preclinical compounds in the area of diabetes. Under the licensing and collaboration agreement, Transition received exclusive worldwide rights to develop and potentially commercialize a class of compounds that, in preclinical models, showed potential to provide glycemic control and other beneficial effects including weight loss.

Under the terms of the agreement, Lilly received an up-front payment of \$1,055,900 (US\$1 million) which has been capitalized as a license acquired from Lilly and is being amortized over 20 years which represents the estimated life of the underlying compounds and patents.

In June 2013, Lilly exercised its option and assumed all development and commercialization rights to type 2 diabetes drug candidate TT401. In conjunction with this assumption of rights, Transition received a US\$7 million milestone payment. Lilly has assumed all costs and will perform all future development and commercialization activities of TT401, and Transition paid US\$14 million to Lilly in three separate installments during the Phase 2 clinical study in fiscal 2015. Transition has no additional funding obligations related to this clinical study or any other development or commercialization activities in the future.

Transition is eligible to receive up to approximately US\$240 million in additional milestone payments plus double-digit royalties (less than 15%) on sales of TT401 products and a low single digit royalty on sales of related compounds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROGRAMS

Transition is focused on developing innovative therapies in several distinct areas of opportunity. Transition's vision is to build a company that has a strong foundation for growth based on multiple technologies and product opportunities, which reduces risk and enhances shareholder return. The Company's technologies are as follows:

ELND005

Alzheimer's disease:

Alzheimer's disease is a progressive brain disorder that gradually destroys a person's memory and ability to learn, reason, make judgments, communicate and carry out daily activities. As Alzheimer's disease progresses, individuals may also experience changes in personality and behavior, such as anxiety, suspiciousness or agitation, as well as delusions or hallucinations. Approximately 90% of Alzheimer's disease patients develop neuropsychiatric symptoms, and up to 60% develop agitation/aggression over the course of their disease. Agitation/aggression are among the most disruptive neuropsychiatric symptoms in Alzheimer's disease and are associated with increased morbidity and caregiver burden.

The disease mainly affects individuals over age 65 and it is estimated over 18 million people are suffering from Alzheimer's disease worldwide. In the U.S., Alzheimer's disease is the sixth leading cause of death and current direct/indirect costs of caring for an estimated 5.4 million Alzheimer's disease patients are at least US\$100 billion annually.

Current U.S. Food and Drug Administration approved Alzheimer's disease medications may temporarily delay memory decline for some individuals, but none of the currently approved drugs are known to stop the underlying degeneration of brain cells. Certain drugs approved to treat other illnesses may sometimes help with the emotional and behavioral symptoms of Alzheimer's disease. With an aging population, there is a great need for therapies to address Alzheimer's disease patient's neuropsychiatric symptoms and declines in cognitive ability.

Down Syndrome:

Down syndrome (DS, Trisomy 21), caused by an extra copy of chromosome 21, is the most common genetic form of intellectual disability with a prevalence of approximately 1 in 700 live births in the U.S. Children with DS exhibit developmental delay and various degrees of intellectual disability, while adults are at increased risk of Alzheimer's dementia. There are currently no drugs approved for the treatment of cognitive dysfunction in DS.

Excess activity of genes on chromosome 21, such as amyloid precursor protein (APP) and sodium-myoinositol active transporter (SMIT), are thought to play a role in the cognitive dysfunction of DS. Life-long exposure to increased amyloid and myo-inositol levels in the brain are thought to lead to synaptic dysfunction and cognitive disability. ELND005 may have the potential to improve cognition in DS by decreasing amyloid levels and regulating myo-inositol-dependent neuronal signaling.

CLINICAL DEVELOPMENT UPDATE

ELND005 for Neuropsychiatric Diseases

TTIL is developing neuropsychiatric drug candidate ELND005, (scyllo-inositol). ELND005 is an orally bioavailable small molecule that is being investigated for multiple neuropsychiatric indications on the basis of its proposed dual mechanism of action, which includes β -amyloid anti-aggregation and regulation of brain myo-inositol levels. An extensive clinical program of Phase 1 and Phase 2 studies have been completed with ELND005 to support clinical development. The Phase 2 study (ELND005-AD201) which evaluated ELND005 in more than 350 mild to moderate AD patients was published in the peer-reviewed journal, *Neurology*. The *Neurology* article was entitled "A Phase 2 randomized trial of ELND005, scyllo-inositol, in mild-moderate Alzheimer's disease".

Currently, the use of ELND005 is being investigated in two clinical areas:

(a) Agitation and Aggression in Alzheimer’s Disease

A Phase 2 clinical trial of ELND005 for the treatment of agitation/aggression in patients with Alzheimer’s disease was performed at 70 clinical sites in North America and Europe. The objectives of the study were to evaluate the efficacy, safety and tolerability of ELND005 over 12 weeks of treatment in AD patients who were experiencing moderate or severe levels of agitation/aggression. Enrollment of this clinical study (AG201) known as the “Harmony AD” study was completed on March 2, 2015 with a total of 350 patients being enrolled.

On June 24, 2015, Transition announced that ELND005 did not meet its primary efficacy endpoint in the Phase 2/3 clinical study of ELND005 in agitation and aggression in patients with AD. In the study, both the treatment and placebo groups showed a significant, but similar, reduction in agitation and aggression relative to baseline. There was a greater than expected reduction in agitation and aggression observed in the placebo group as measured in weeks 4, 8 and 12 in the study. The safety and tolerability profile of ELND005 was consistent with previous studies in AD at the 250mg bid dose.

The Company’s subsidiary, TTIL performed a thorough review of the data from the completed Phase 2/3 study in agitation and aggression and released the results of this review on October 14, 2015. Although the primary efficacy endpoint was not achieved in the overall study, ELND005 significantly (p value <0.05) improved agitation and aggression in a sub-population of Alzheimer’s disease patients with severe agitation and aggression. In this population, ELND005 demonstrated numerical improvement in 20 of 21 behavioral symptoms measured as part of the primary efficacy endpoint. ELND005 also demonstrated an acceptable safety and tolerability profile. TTIL intends to meet with regulators to seek guidance on an ELND005 Phase 3 program for AD patients with severe agitation and aggression.

(b) Down Syndrome

On November 20, 2014, Transition announced the results of a clinical study of neuropsychiatric drug candidate ELND005 in young adults with Down syndrome. Transition’s wholly owned subsidiary, TTIL completed this first study in Down syndrome subjects without dementia to allow optimal dose selection for future larger studies.

The study enrolled 23 Down syndrome subjects in three study arms over a four-week treatment period: placebo, 250 mg once daily; and 250 mg twice daily. At the doses evaluated, ELND005 was determined to have an acceptable safety and tolerability profile and there were no serious adverse events reported in the study. Treatment emergent adverse events were reported in seven of the subjects receiving ELND005 and all were deemed mild in severity. The two ELND005 doses achieved the plasma levels expected in pharmacokinetic modeling and will inform the selection of a higher dose in a larger Phase 2b study in Down syndrome subjects.

The ELND005 technology is claimed in multiple issued patents and pending patent applications in many jurisdictions throughout the world.

Expenditures for the ELND005 Program

On February 28, 2014, Transition announced that after a series of transactions, Perrigo has transferred all of its ELND005 rights and assets to the Company’s wholly owned subsidiary, TTIL. As a result, effective March 1, 2014, TTIL is responsible for all future development and commercialization activities of ELND005.

During the three and six month periods ended December 31, 2015 and 2014, the Company incurred direct research and development costs for this program as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

ELND005 Program ⁽¹⁾	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$
Pre-clinical studies	-	-	-	-
Clinical studies	123,839	4,246,127	2,900,538	9,734,253
Manufacturing	1,185	253,238	14,959	471,016
Other direct research	137,289	457,346	522,130	1,152,669
TOTAL	262,313	4,956,711	3,437,627	11,357,938

⁽¹⁾ These costs are direct research and development costs only and do not include patent costs, investment tax credits, salaries and benefits, amortization of intangible assets or an allocation of Company overhead.

TT401

Development of TT401 for Diabetes

Diabetes is a disease in which the body does not produce or properly use insulin. Insulin is a hormone released from islet cells located in the pancreas that is needed to convert sugar, starches and other food into energy needed for daily life. There are two primary forms of diabetes; type 1 diabetes and type 2 diabetes.

Type 2 diabetes usually begins as insulin resistance, a disorder in which the cells do not use insulin properly. As the need for insulin increases, the pancreas gradually loses its ability to produce it. Current treatments for type 2 diabetes include lifestyle changes, oral medications, incretin therapy and insulin therapy. Type 2 diabetes accounts for about 90-95% of all diagnosed cases of diabetes.

Clinical Development Update of TT401 (LY2944876)

On March 3, 2010, Transition announced that it had acquired the exclusive worldwide rights to develop and potentially commercialize a series of preclinical compounds from Lilly in the area of diabetes. In preclinical diabetes models, these compounds showed potential to provide glycemic control and other beneficial effects including weight loss.

On June 18, 2012, Transition announced the results of the Phase 1 clinical study of type 2 diabetes drug candidate, TT401. The Phase 1, double-blind, placebo-controlled randomized study enrolled 48 non-diabetic obese subjects in six cohorts evaluating six escalating subcutaneous single doses of TT401. TT401 demonstrated an acceptable safety and tolerability profile in non-diabetic obese subjects in the study. TT401 exhibited the expected pharmacological effect on glucose and pharmacodynamic biomarkers at doses that were safe and tolerable. The pharmacokinetic profile, assessed over 28 days, demonstrated a half-life consistent with once-weekly dosing.

On April 30, 2013, Transition announced the results of a five-week proof of concept clinical study of TT401 in type 2 diabetes and obese non-diabetic subjects. The study enrolled diabetic patients at five dosing levels and non-diabetic obese patients at one dose level. All dosing cohorts received five doses over a five week period. Diabetic patients were on stable doses of metformin.

At the end of the treatment period, TT401-treated patients in the 3 highest dose groups experienced statistically significant reductions in mean fasting plasma glucose relative to placebo. Statistically significant mean body weight reduction relative to baseline occurred in the three highest dose groups. A similar reduction in body weight was also observed in the obese non-diabetic cohort. TT401 demonstrated an acceptable safety and tolerability profile at all doses evaluated in diabetic and non-diabetic obese subjects. The most common adverse event noted in the study was

decreased appetite. Some subjects in the highest three dose groups experienced mild nausea and vomiting, which are consistent with studies of other GLP-1 agonist drug candidates. The pharmacokinetic profile, assessed over the five week study, demonstrated a half-life consistent with once-weekly dosing.

On June 17, 2013, Lilly exercised its option to assume all development and commercialization rights to type 2 diabetes drug candidate TT401. In conjunction with this assumption of rights, Transition received a US\$7 million milestone payment. Lilly and Transition have amended their agreement to address future development of TT401 and associated financial arrangements. Lilly has assumed all costs and will perform all future development and commercialization activities of TT401. In May, 2014, Transition announced the dosing of the first patient in a Phase 2 clinical study of TT401. The study was performed by Transition's development partner Lilly. The objectives of the study were to evaluate the safety and effectiveness of TT401 compared to once-weekly exenatide extended release and placebo. In February 2015, Lilly informed Transition that 420 type 2 diabetic subjects had been enrolled in the current Phase 2 study, thereby completing the enrollment phase of the study.

In fiscal 2015, Transition made three separate installments to Lilly to support the Phase 2 clinical study totaling US\$14 million. There are no additional funding obligations related to this clinical study or the TT401 development program.

On February 1, 2016, Transition announced the results of a Phase 2 clinical study of drug candidate TT401 (LY2944876) for the treatment of type 2 diabetes. TT401 is a once-weekly administered oxyntomodulin analog with dual GLP-1 and glucagon agonist activity. TT401 development collaborator Eli Lilly and Company performed the Phase 2 study enrolling 420 type 2 diabetes subjects into a 24 week study consisting of a 12-week randomized blinded stage followed by a 12-week open-label stage. The study included 4 once-weekly dose arms of TT401 (10mg, 15mg, 30mg, 50mg), a placebo arm, and an active comparator arm (exenatide extended release – 2mg).

TT401 demonstrated HbA1c improvements of up to -1.43% (similar to the exenatide arm). All TT401 dose arms and the exenatide arm were statistically significant relative to the placebo arm at Weeks 12 and 24.

TT401 also produced dose dependent weight loss (up to -3.3 kg). The weight loss observed in the highest dose arm (50mg of TT401) was statistically significant relative to both the placebo and exenatide arms at weeks 12 and 24.

In the study, TT401 appeared to have an acceptable safety and tolerability profile. There were a similar number of study discontinuations and serious adverse events between the TT401 dose arms and the exenatide arm. The most frequently observed adverse events were gastrointestinal; these were generally classified as mild to moderate and diminished over time.

The Phase 2 study data will be submitted for presentation at a future medical meeting.

Should Lilly continue TT401 development, Transition would be eligible to receive a US\$15 million milestone payment as well as future milestone payments and royalties. A decision from Lilly is expected within the next 90 days. Otherwise, Transition may elect to assume development and commercialization rights to TT401. This option allows Transition to pursue TT401 development on its own or with a third party, subject to future royalty payments to Lilly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TT701 for Androgen Deficiency

On May 6, 2015, TTIL exclusively licensed worldwide rights to a novel small molecule drug candidate TT701 from Lilly. TT701 is a selective androgen receptor modulator that has been shown in a Phase 2 study to significantly increase lean body mass and a measurement of muscle strength in male subjects.

Clinical Development of TT701

Since acquiring the exclusive worldwide rights to TT701 the Company has incurred drug development manufacturing costs as it prepares to move the drug candidate into a Phase 2 clinical trial.

On October 29, 2015, Transition announced that TTIL had entered into an agreement with Brigham and Women's Hospital for an investigator-led clinical study of drug candidate TT701.

TTIL will support a Phase 2 study to evaluate selective androgen receptor modulator (SARM) drug candidate TT701 as a therapy to improve the symptoms of androgen deficiency in men with prostate cancer that have undergone a radical prostatectomy procedure. The Phase 2 clinical study is expected to enroll up to 125 subjects and will be performed at selected specialized clinical sites including Brigham and Women's Hospital. The principal investigator for the Phase 2 study will be Dr. Shalender Bhasin, an internationally recognized endocrinologist with expertise in testosterone biology and men's aging. The Company expects the Phase 2 study of TT701 to commence during the first quarter of calendar 2016.

Expenditures for the TT701 Program

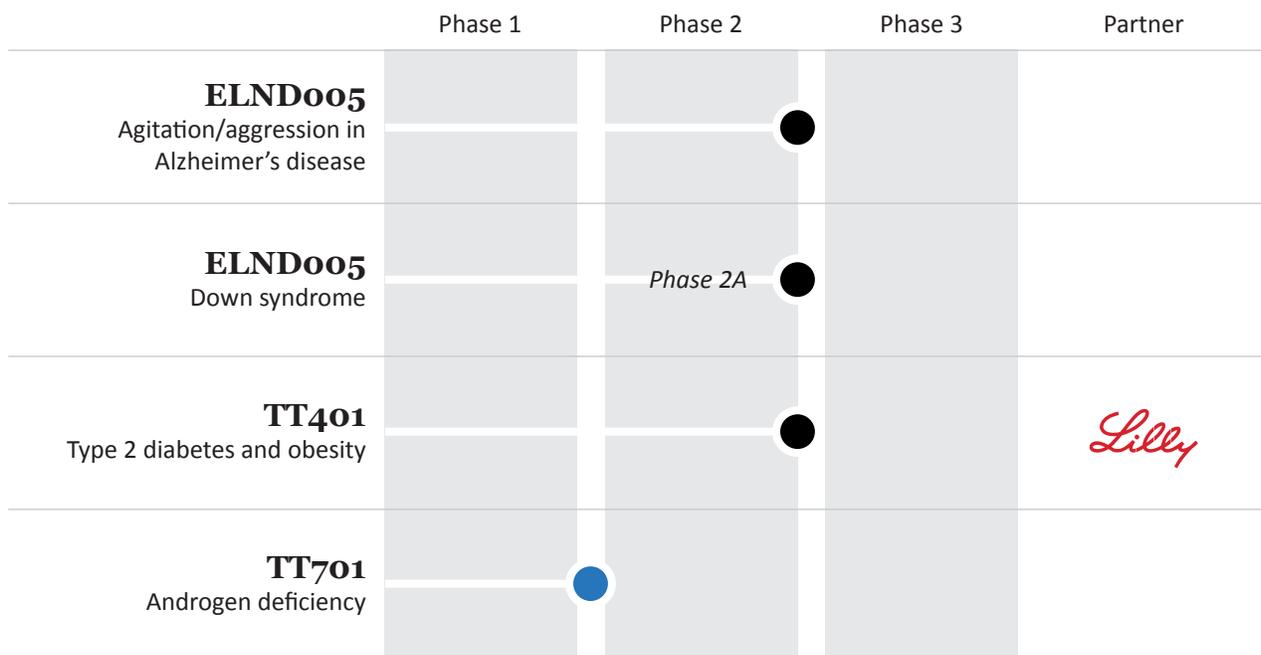
During the three and six month periods ended December 31, 2015 and 2014, the Company incurred direct research and development costs for this program as follows:

TT-701 Program⁽¹⁾	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$
Pre-clinical studies	-	-	-	-
Clinical studies	-	-	-	-
Manufacturing	(414)	-	153,954	-
Other direct research	4,017	-	19,121	-
TOTAL	3,603	-	173,075	-

⁽¹⁾ These costs are direct research and development costs only and do not include patent costs, investment tax credits, salaries and benefits, amortization of intangible assets or an allocation of Company overhead.

The Next Steps

Transition's goal for its programs is to achieve product approval and ultimately significant revenues or royalties. To achieve product approval, the Company and or its partners, must successfully complete clinical trials and achieve regulatory approval. The stages of development of the Company's technologies are illustrated below:



RESULTS OF OPERATIONS

During the three month period ended December 31, 2015, the Company recorded a net loss of \$2,005,780 (\$0.05 loss per common share) compared to a net loss of \$16,910,139 (\$0.48 loss per common share) for the three month period ended December 31, 2014.

For the six month period ended December 31, 2015, the Company recorded a net loss of \$6,497,236 (\$0.17 loss per common share) compared to a net loss of \$32,605,463 (\$0.93 loss per common share) for the six month period ended December 31, 2014.

The decreases in net loss of \$14,904,359 and \$26,108,227 for the three and six month periods ended December 31, 2015 is due to the significant decrease in research and development expenses resulting from the Company having no further funding obligations to TT401 development partner Lilly as well as decreased clinical development costs relating to ELND005.

Research and Development

Research and development expenses decreased by \$14,241,943 from \$15,904,889 for the three month period ended December 31, 2014 to \$1,662,946 for the three month period ended December 31, 2015. For the six month period ended December 31, 2015, research and development expenses decreased \$25,551,354 to \$6,388,426 from \$31,939,780 for the same period in fiscal 2015.

The decreases in research and development expenses for both the three and six month periods ended December 31, 2015 are primarily due to a decrease in funding obligations relating to TT401 as the Company paid a US\$6 million milestone payment to Lilly during the comparative three month period. The decrease in research and development expenses is also due to a decrease in clinical development costs related to ELND005 and reduced salary and related expenses which resulted from cost cutting efforts.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company anticipates research and development expenses for the third quarter of fiscal 2016 will remain fairly consistent with the second quarter as the Company prepares for Phase 3 development of ELND005 and commences research payments to Brigham and Women's Hospital for the development of TT701.

General and Administrative

General and administrative expenses increased by \$15,345 from \$1,203,449 for the three month period ended December 31, 2014 to \$1,218,794 for the three month period ended December 31, 2015. For the six month period ended December 31, 2015, general and administrative expenses increased \$109,921 to \$2,619,202 from \$2,509,281 for the same period in fiscal 2015.

The increases in general and administrative expenses for both the three and six month periods ended December 31, 2015 are primarily due to inflationary increases in compensation costs which have been partially offset by reduced professional fees.

The Company anticipates that general and administrative expenses in the third quarter of fiscal 2016 will remain relatively consistent with the second quarter.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of selected quarterly consolidated financial information of the Company for each of the eight most recently completed quarters ending at December 31, 2015.

	First Quarter \$	Second Quarter \$	Third Quarter \$	Fourth Quarter \$
2016				
Revenue	-	-	-	-
Net loss ⁽¹⁾	(4,491,456)	(2,005,780)		
Basic and diluted net income (loss) per common share	(0.12)	(0.05)		
2015				
Revenue	-	-	-	-
Net loss ⁽¹⁾	(15,695,324)	(16,910,139)	(4,748,096)	(13,985,969)
Basic and diluted net income (loss) per common share	(0.45)	(0.48)	(0.13)	(0.38)
2014				
Revenue			-	-
Net loss ⁽¹⁾			(5,067,292)	(13,130,005)
Basic and diluted net income (loss) per common share			(0.17)	(0.43)

⁽¹⁾ Net income (loss) before discontinued operations was equivalent to the net income (loss) for such periods.

The fluctuations of Transition's quarterly results are primarily due to milestone payments made to Lilly to help fund TT401 Phase 2 clinical development and changes in activity levels of the clinical trials being performed by the Company and foreign exchange gains.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can differ from those estimates. We have identified the following areas which we believe require management's most subjective estimates and judgments, often requiring the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods.

(a) Estimates

Valuation and Amortization of Intangible Assets

The Company's intangible assets are comprised of purchased or licensed pharmaceutical compounds, technology and patents. The costs of the Company's intangible assets are amortized over the estimated useful life of up to 20 years. Factors considered in estimating the useful life of the intangible asset include the expected use of the asset by the Company, legal, regulatory and contractual provisions that may limit the useful life, the effects of competition and other economic factors, and the level of expenditures required to obtain the expected future cash flows from the intangible asset. The Company re-evaluates the useful life when there has been a change in these factors. The Company assesses its intangible assets for recoverability whenever indicators of impairment exist. As ELND005 did not meet its primary efficacy endpoint in the Phase 2/3 clinical study in agitation and aggression in Alzheimer's disease, management performed an impairment test and noted there is no impairment of the ELND005 asset as at June 30, 2015.

When the carrying value of an asset is greater than its recoverable amount, which is the higher of its value in use or fair value less costs to sell, an impairment loss is recognized.

Valuation of Contingent Consideration Payable

The contingent consideration is measured at fair value based on level 3 inputs. The contingent consideration is not based on observable inputs and is measured using a discounted cash flow analysis of expected payments in future periods. The significant estimates used in the fair value calculations are as follows:

- (a) Management has estimated the timing of the milestone payments based on current expectations and plans for the development of ELND005. The milestone payments are assigned a probability based on industry statistics for the successful development of pharmaceutical products including regulatory approval and achievement of revenue targets. An increase of 10% applied to the probability assumptions, with all other variables held constant, will increase the contingent consideration payable by \$1,624,168. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would reduce the contingent consideration payable by \$1,710,592;
- (b) The probability adjusted cash flows are discounted at a rate of 20% which is management's best estimate of the Company's cost of capital. An increase of 5% to the discount rate would decrease the contingent consideration payable by \$1,191,416. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by \$1,682,499.

There were no significant changes in the assumptions for the three and six month periods ended December 31, 2015. The Company has recognized a change in fair value of contingent consideration payable of \$1,563 and \$230,422 during the three and six month periods ended December 31, 2015 (three and six month periods ended December 31, 2014 - \$245,658 and \$470,959) mainly related to the passage of time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Based Payments and Warrants

When the Company issues stock options and warrants, an estimate of fair value is derived for the equity instrument using the Black-Scholes option pricing model. The application of this option pricing model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk free interest rate and an assumption regarding the Company's dividend policy in the future. If other assumptions are used, the value derived for the equity instruments could be significantly impacted.

IFRS ISSUED BUT NOT YET ADOPTED

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. Currently IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018 with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 16 – Leases

On January 13, 2016, the International Accounting Standards Board issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no substantive changes in the Company's internal controls over financial reporting that have occurred during the most recent interim period beginning October 1, 2015 and ending December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company commenced operations in July 1998, and has devoted its resources primarily to fund its research and development programs. All revenue to date has been generated from milestone payments and licensing fees. The Company has incurred a cumulative deficit to December 31, 2015 of \$228,951,935. Losses are expected to continue for the next several years as the Company invests in research and development, preclinical studies, clinical trials, manufacturing and regulatory compliance.

Since inception, the Company has been financed primarily from public and private sales of equity, the exercise of warrants and stock options, interest earned on cash deposits and short term investments and revenues and reimbursements from partners.

The Company's cash was \$29,070,189 at December 31, 2015 as compared to \$40,510,758 at June 30, 2015, resulting in a decrease of \$11,440,569. The Company's working capital position at December 31, 2015 decreased \$5,155,903 from \$32,026,606 at June 30, 2015 to \$26,870,703, at December 31, 2015.

The decrease in the Company's cash and working capital is primarily due to the expenditures incurred during the six month period ended December 31, 2015.

The Company's current cash projection indicates that the current cash resources should enable the Company to execute its core business plan and meet its projected cash requirements beyond the next 12 months.

The success of the Company is dependent on its ability to bring its products to market, obtain the necessary regulatory approvals and achieve future profitable operations. The continuation of the research and development activities and the commercialization of its products are dependent on the Company's ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities, operations, and partnerships. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

Financial Instruments

Financial instruments of the Company consist mainly of cash, other receivables, trade and other payables and contingent consideration payable. Management's primary investment objective is to maintain safety of principal and provide adequate liquidity to meet all current payment obligations and future planned expenditures.

The Company is exposed to market risks related to volatility in interest rates for the Company's investment portfolio and foreign currency exchange rates related to cash and purchases of supplies and services made in U.S. dollars.

The Company is exposed to interest rate risk to the extent that the cash is held in deposit accounts which earn interest at variable rates. The Company's maximum exposure to interest rate risk is based on the effective interest rate of the current carrying value of these assets. The Company does not speculate on interest rates and holds all deposits until their date of maturity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

Minimum payments under our contractual obligations are as follows:

	Less than 1 Year \$	1 - 3 years \$	4 - 5 years \$	After 5 years \$	Total \$
Operating leases	177,873	335,690	229,740	-	743,303
Clinical and toxicity study agreements	996,557	996,557	-	-	1,993,114
Manufacturing agreements	51,377	-	-	-	51,377
Contingent Consideration Payable	2,847,759	-	-	63,428,760	66,276,519
Other	155,875	-	-	-	155,875
TOTAL	4,229,441	1,332,247	229,740	63,428,760	69,220,188

Contractual obligations denominated in U.S. dollars have been translated to Canadian dollars using the exchange rate at December 31, 2015 of 1.3840.

The Company may also be required to pay commercial milestone payments of US\$10,000,000 to Brigham and Women's Hospital in respect of TT701.

PROPOSED TRANSACTIONS

On July 19, 2013, the Company's shelf registration statement filed with the United States Securities and Exchange Commission ("SEC") on Form F-3 became effective. The shelf prospectus provides for the potential offering in the United States of up to an aggregate amount of US\$50 million of Transition's common shares, warrants, or a combination thereof, from time to time in one or more offerings until July 19, 2016.

On January 5, 2015, the Company filed with the SEC a prospectus supplemental to the shelf prospectus and a sales agreement with Cowen and Company, LLC or Cowen, relating to the sale of the Company's common shares. In accordance with the terms of the sales agreement, the Company may offer and sell from time to time common shares having an aggregate offering price of up to US \$25 million with Cowen acting as sales agent. After the closing of the February 2015 US\$23 million public offering, the Company can raise an additional US\$27 million through the issuance of common shares, warrants or a combination thereof, from time to time in one of more offerings until July 19, 2016.

Utilization of the U.S. shelf prospectus is dependent upon meeting certain market capitalization thresholds at the time of financing.

OUTSTANDING SHARE DATA

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares.

Issued and Outstanding

The following details the issued and outstanding equity securities of the Company:

Common Shares

As at February 5, 2016 the Company has 38,878,879 common shares outstanding.

Stock Options

As at February 5, 2016 the Company has 2,341,507 stock options outstanding with exercise prices ranging from \$2.09 to \$10.19 and various expiry dates extending to June 14, 2025. At February 5, 2016, on an if-converted basis, these stock options would result in the issuance of 2,341,507 common shares in the capital of the Company at an aggregate exercise price of \$11,002,408.

Warrants

The warrants issued on August 15, 2013 expired unexercised and accordingly, the carrying value of the expired warrants of \$2,025,839 was reclassified to contributed surplus during the three month period ending September 30, 2015.

As at February 5, 2016, the Company has a total of 1,949,250 warrants outstanding with a purchase price of US\$7.10. Each warrant entitles the holder, within two years of the June 23, 2013 issuance date, to purchase one additional common share in the capital of the Company.

RISKS AND UNCERTAINTIES

The Company's risks and uncertainties are as described in the Company's annual MD&A, which can be found on SEDAR at www.SEDAR.com.

This page is intentionally left blank.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended December 31, 2015 and 2014
(Unaudited)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>In Canadian Dollars</i>	Note	As at December 31, 2015 \$	As at June 30, 2015 \$
Assets			
Current assets			
Cash		29,070,189	40,510,758
Other receivables		72,553	265,189
Income tax and investment tax credits receivable		399,668	399,668
Prepaid expenses and deposits		328,921	259,143
		29,871,331	41,434,758
Non-current assets			
Property and equipment		152,530	191,944
Intangible assets	5	7,759,188	8,022,383
Total assets		37,783,049	49,649,085
Liabilities			
Current liabilities			
Trade and other payables	6	2,064,780	8,549,895
Contingent consideration payable	7	935,848	858,257
		3,000,628	9,408,152
Non-current liabilities			
Contingent consideration payable	7	3,980,476	3,503,344
Total liabilities		6,981,104	12,911,496
Equity attributable to owners of the Company			
Share capital	9	233,623,544	233,633,493
Warrants	9	3,150,558	5,176,397
Contributed surplus		17,170,146	14,771,907
Share-based payment reserve	9	6,472,380	5,892,305
Accumulated other comprehensive income		(662,748)	(281,814)
Deficit		(228,951,935)	(222,454,699)
Total equity		30,801,945	36,737,589
Total liabilities and equity		37,783,049	49,649,085

Contingencies and commitments

12

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

On behalf of the Board:


Tony Cruz, Director


Christopher Henley, Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the six and three months ended December 31, 2015 and 2014
(Unaudited)

<i>In Canadian Dollars, except per share data</i>	Note	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$
Expenses					
Research and development	10	6,388,426	31,939,780	1,662,946	15,904,889
Selling, general and administrative expenses	10	2,619,202	2,509,281	1,218,794	1,203,449
Operating Loss		(9,007,628)	(34,449,061)	(2,881,740)	(17,108,338)
Change in fair value of contingent consideration payable	7	(230,422)	(470,959)	(1,563)	(245,658)
Interest income		63,719	112,247	26,255	46,554
Foreign exchange gain		2,677,095	2,202,310	851,268	397,303
Net loss for the period		(6,497,236)	(32,605,463)	(2,005,780)	(16,910,139)
Other comprehensive loss for the period					
Items that may be subsequently reclassified to net income:					
Cumulative translation adjustment		(380,934)	(39,676)	(384,448)	(57,099)
Comprehensive loss for the period		(6,878,170)	(32,645,139)	(2,390,228)	(16,967,238)
Basic and diluted net loss per common share		11	(0.17)	(0.93)	(0.05)
			(0.48)		

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the six and three months ended December 31, 2015 and 2014

(Unaudited)

<i>In Canadian Dollars</i>	Note	Number of common shares #	Share capital \$
Balance, July 1, 2015		38,878,879	233,633,493
Net loss for the period		-	-
Cumulative translation adjustment		-	-
Share issuance costs pursuant to public offering, net	9	-	(9,949)
Share options exercised, expired or cancelled	9	-	-
Warrants expired	9	-	-
Share-based payment compensation expense	9	-	-
Balance, December 31, 2015		38,878,879	233,623,544
Balance, July 1, 2014		35,303,913	207,374,493
Net loss for the period		-	-
Cumulative translation adjustment		-	-
Share options exercised, expired or cancelled	9	12,170	44,764
Share-based payment compensation expense	9	-	-
Balance, December 31, 2014		35,316,083	207,419,257

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

Attributable to equity holders of the company

Warrants \$	Contributed surplus \$	Share-based payment reserve \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total equity \$
5,176,397	14,771,907	5,892,305	(281,814)	(222,454,699)	36,737,589
-	-	-	-	(6,497,236)	(6,497,236)
-	-	-	(380,934)	-	(380,934)
-	-	-	-	-	(9,949)
-	372,400	(372,400)	-	-	-
(2,025,839)	2,025,839	-	-	-	-
-	-	952,475	-	-	952,475
3,150,558	17,170,146	6,472,380	(662,748)	(228,951,935)	30,801,945
5,176,397	14,768,221	2,866,292	24,028	(171,115,171)	59,094,260
-	-	-	-	(32,605,463)	(32,605,463)
-	-	-	(39,676)	-	(39,676)
-	-	(18,535)	-	-	26,229
-	-	1,565,220	-	-	1,565,220
5,176,397	14,768,221	4,412,977	(15,648)	(203,720,634)	28,040,570

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six and three month periods ended December 31, 2015 and 2014

(Unaudited)

<i>In Canadian Dollars</i>	Note	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$
Cash flows from operating activities					
Net loss for the period		(6,497,236)	(32,605,463)	(2,005,780)	(16,910,139)
Adjustments for:					
Change in fair value of contingent consideration payable		230,422	470,959	1,563	245,658
Depreciation and amortization		372,547	332,826	186,447	171,230
Share-based payment compensation expense		952,475	1,565,220	534,960	673,566
Accrued interest		-	34,562	-	34,562
Unrealized foreign exchange gain		(3,033,883)	(2,653,341)	(999,294)	(846,862)
Change in working capital	13	(6,816,644)	(3,650,791)	(1,473,763)	(3,418,617)
Net cash used in operating activities		(14,792,319)	(36,506,028)	(3,755,867)	(20,050,602)
Cash flows from investing activities					
Maturity of short term investments		-	3,025,000	-	3,025,000
Purchase of property and equipment		(687)	(119,722)	-	(82,256)
Net cash (used in) provided by investing activities		(687)	2,905,278	-	2,942,744
Cash flows from financing activities					
Share issuance costs paid		(9,949)	-	-	-
Proceeds from share options exercised	9	-	26,229	-	20,791
Net cash provided by (used in) financing activities		(9,949)	26,229	-	20,791
Foreign exchange gains on cash		3,362,386	3,118,841	1,022,855	1,061,351
Net decrease in cash		(11,440,569)	(30,455,680)	(2,733,012)	(16,025,716)
Cash at beginning of period		40,510,758	57,212,004	31,803,201	42,782,040
Cash at end of period		29,070,189	26,756,324	29,070,189	26,756,324

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (*Unaudited, in Canadian dollars*)

1. GENERAL INFORMATION AND NATURE OF OPERATIONS

Transition Therapeutics Inc. and its subsidiaries (together the Company or Transition) was incorporated by Articles of Incorporation under the Business Corporations Act (Ontario) on July 6, 1998. The Company is a public company with common shares listed on both the NASDAQ and Toronto Stock Exchange and is incorporated and domiciled in Canada. The address of its registered office is 101 College Street, Suite 220, Toronto, Ontario, Canada.

The Company is a product-focused biopharmaceutical company developing therapeutics for disease indications with large markets. The Company's lead technologies are focused on the treatment of agitation and aggression in Alzheimer's disease and diabetes.

The success of the Company is dependent on bringing its products to market, obtaining the necessary regulatory approvals and achieving future profitable operations. The continuation of the research and development activities and the commercialization of its products are dependent on the Company's ability to successfully complete these activities and to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board for interim financial statements, including IAS 34 Interim Financial Reporting. The consolidated financial statements have been prepared using the historical cost convention except for the revaluation of contingent consideration payable to fair value.

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual consolidated financial statements for the year ended June 30, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Directors approved the interim consolidated financial statements for issuance on February 5, 2016. The significant accounting policies that have been applied in the preparation of these interim consolidated financial statements are described in the Company's annual financial statements for the year ended June 30, 2015 and have been applied to all periods presented.

IFRS issued but not yet adopted by the Company are disclosed in the Company's annual financial statements for the year ended June 30, 2015 except as follows:

On January 13, 2016, the International Accounting Standards Board issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (Unaudited, in Canadian dollars)

4. FINANCIAL RISK MANAGEMENT

4.1 Categories of financial assets and liabilities

All financial instruments are measured at amortized cost except for the contingent consideration payable which is measured at fair value. The following table outlines the Company's financial instruments, their classification, carrying value and fair value.

Financial Instruments as at December 31, 2015	Classification	Carrying Value \$	Fair Value \$
Cash	Loans and receivables	29,070,189	29,070,189
Other receivables	Loans and receivables	72,553	72,553
Trade and other payables	Other liabilities	2,064,780	2,064,780
Contingent consideration payable	Fair value through profit and loss	4,916,324	4,916,324

Financial Instruments as at June 30, 2015	Classification	Carrying Value \$	Fair Value \$
Cash	Loans and receivables	40,510,758	40,510,758
Other receivables	Loans and receivables	265,189	265,189
Trade and other payables	Other liabilities	8,549,895	8,549,895
Contingent consideration payable	Fair value through profit and loss	4,361,601	4,361,601

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The carrying value of cash, other receivables and accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments.

The contingent consideration is measured at fair value based on level 3 inputs. The contingent consideration is not based on observable inputs and is measured using a discounted cash flow analysis of expected payments in future periods. The significant estimates used in the fair value calculations are as follows:

- (a) Management has estimated the timing of the milestone payments based on current expectations and plans for the development of ELND005. The milestone payments are assigned a probability based on industry statistics for the successful development of pharmaceutical products. An increase of 10% applied to the probability assumptions, with all other variables held constant, will increase the contingent consideration payable by \$1,624,168. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would decrease the contingent consideration payable by \$1,710,592;
- (b) The probability adjusted cash flows are discounted at a rate of 20% which is management's best estimate of the Company's cost of capital. An increase of 5% to the discount rate would decrease the contingent consideration payable by \$1,191,416. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by \$1,682,499.

4.2 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange and interest rate risks), credit risk and liquidity risk. Risk management is the responsibility of the Company's finance function which identifies, evaluates and where appropriate, mitigates financial risks.

(a) Foreign exchange risk

The Company operates in Canada and has relationships with entities in other countries. Foreign exchange risk arises from purchase transactions, as well as recognized financial assets and liabilities denominated in foreign currencies, mainly the US dollar. The Company does not enter into hedging or other contracts to mitigate its exposure to foreign exchange risk and maintains sufficient US dollars to meet the Company's planned US dollar expenses.

Financial instruments in foreign currencies at December 31, 2015 and June 30, 2015 are approximately:

	December 31, 2015 US\$	June 30, 2015 US\$
Cash	19,269,111	30,544,014
Trade and other payables	(276,245)	(102,464)
	18,992,866	30,441,550

Fluctuations in the US dollar exchange rate could potentially have a significant impact on the Company's results. At December 31, 2015, if the Canadian dollar weakened 10% against the US dollar, with all other variables held constant, comprehensive loss for the six month period ended December 31, 2015 would have decreased by approximately \$1,581,000. Conversely, if the Canadian dollar strengthened 10% against the US dollar, with all other variables held constant, comprehensive loss for the six month period ended December 31, 2015 would have increased by approximately \$1,581,000.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due.

The Company's investment policies are designed to maintain safety of principal and provide sufficient readily available cash in order to meet liquidity requirements. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. All cash and short term investments have maturities less than one year.

At December 31, 2015 the Company's financial liabilities which include trade and other payables are current and are expected to be repaid within 1 to 3 months of the period end date.

If all contingencies are satisfied, the contingent consideration payable is expected to be paid as follows:

Fiscal year ending June 30, 2017	\$2,847,759
Fiscal year ending June 30, 2021	\$3,797,096
Fiscal year ending June 30, 2022	\$18,111,664
Fiscal year ending June 30, 2023	\$20,760,000
Fiscal year ending June 30, 2024	\$20,760,000

4.3 Capital risk management

The Company's primary objective when managing capital is to ensure its ability to continue as a going concern in order to pursue the development of its drug candidates and the out-license of these drug candidates to pharmaceutical companies. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive arrangements such as collaborative partnership arrangements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (Unaudited, in Canadian dollars)

The Company includes equity comprised of issued share capital, warrants, contributed surplus and deficit in the definition of capital. The Company has financed its capital requirements primarily through share issuances since inception and collaborative partnership agreements.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company monitors its cash requirements and market conditions to anticipate the timing of requiring additional capital to finance the development of its drug candidates. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital management strategy during the six month period ended December 31, 2015 from the year ended June 30, 2015.

The Company's current cash projection indicates that the current cash resources should enable the Company to execute its core business plan and meet its projected cash requirements beyond the next 12 months. However, the Company's working capital may not be sufficient to meet its stated business objectives in the event of unforeseen circumstances or a change in the strategic direction of the Company. When, or if, the Company requires additional capital, there can be no assurance that the Company will be able to obtain further financing on favourable terms, if at all.

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	ENI Technology acquired (ELND005) \$	Lilly Licenses acquired (TT401/402) \$	Lilly SARM License acquired (TT701) \$	Total \$
As at July 1, 2015				
Cost	20,547,993	1,055,900	624,500	22,228,393
Accumulated amortization	(13,919,829)	(282,019)	(4,162)	(14,206,010)
Net book value July 1, 2015	6,628,164	773,881	620,338	8,022,383
As at December 31, 2015				
Cost	20,547,993	1,055,900	692,000	22,295,893
Accumulated amortization	(14,195,999)	(308,417)	(32,289)	(14,536,705)
Net book value December 31, 2015	6,351,994	747,483	659,711	7,759,188
Period ended December 31, 2015				
Opening net book value	6,628,164	773,881	620,338	8,022,383
Amortization charge	(276,170)	(26,398)	(28,127)	(330,695)
Foreign exchange	-	-	67,500	67,500
Net book value December 31, 2015	6,351,994	747,483	659,711	7,759,188

	Technology acquired (ELND005) \$	Lilly Licenses acquired (TT401/402) \$	Lilly SARM License acquired (TT701) \$	Total \$
As at July 1, 2014				
Cost	20,547,993	1,055,900	-	21,603,893
Accumulated amortization	(13,367,489)	(229,223)	-	(13,596,712)
Net book value	7,180,504	826,677	-	8,007,181
As at June 30, 2015				
Cost	20,547,993	1,055,900	624,500	22,228,393
Accumulated amortization	(13,919,829)	(282,019)	(4,162)	(14,206,010)
Net book value June 30, 2015	6,628,164	773,881	620,338	8,022,383
Year ended June 30, 2015				
Opening net book value	7,180,504	826,677	-	8,007,181
Acquisition of intangible assets	-	-	624,500	624,500
Amortization charge	(552,340)	(52,796)	(4,162)	(609,298)
Net book value June 30, 2015	6,628,164	773,881	620,338	8,022,383

The amortization of all intangible assets relates to the research and development efforts of the Company and has therefore been included in the “research and development” line in the consolidated statement of comprehensive loss.

6. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	December 31, 2015 \$	June 30, 2015 \$
Accounts payable	320,679	2,594
Accrued expenses:		
Clinical trials and manufacturing	1,062,335	7,769,521
Salaries and benefits	370,131	398,017
Professional fees and services	208,680	235,477
Other	102,955	144,286
	1,744,101	8,547,301
	2,064,780	8,549,895

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (Unaudited, in Canadian dollars)

7. CONTINGENT CONSIDERATION PAYABLE

- (a) Under the terms of the ENI step-acquisition agreement, the Company is committed to pay the former shareholders of ENI contingent clinical milestones potentially totaling \$10.9 million payable in cash or Transition common shares at the then market price and a royalty of up to 1% on net sales of the ELND005 product. The Company has recognized a liability as at December 31, 2015 of \$1,502,576 (June 30, 2015 - \$1,429,884) which represents the fair value of the contingent consideration payable to the former shareholders of ENI.
- (b) Under the terms of the ELND005 milestone and royalty agreement, the Company is committed to pay Perrigo Company Limited contingent approval and commercialization milestones potentially totaling US\$40 million and a royalty of up to 6.5% on net sales of the ELND005 product. Accordingly, the Company has recognized a liability as at December 31, 2015 of \$3,413,748 (June 30, 2015 - \$2,931,717) which represents the fair value of the contingent consideration payable to Perrigo.

Contingent Consideration Payable	Payable to ENI \$	Payable to Perrigo \$	Total \$
Balance at July 1, 2014	1,030,775	2,807,511	3,838,286
Change in contingent consideration payable	399,109	(333,322)	65,787
Foreign exchange	-	457,528	457,528
Balance at June 30, 2015	1,429,884	2,931,717	4,361,601
Change in contingent consideration payable	72,692	157,730	230,422
Foreign exchange	-	324,301	324,301
Balance at December 31, 2015	1,502,576	3,413,748	4,916,324

Significant assumptions and the sensitivity of changes to these assumptions are discussed in Note 4.

8. LICENSING AND COLLABORATION AGREEMENTS WITH ELI LILLY AND COMPANY

- (a) March 3, 2010, Transition and Eli Lilly and Company (“Lilly”) entered into a licensing and collaboration agreement granting Transition the rights to a series of preclinical compounds in the area of diabetes. Under the licensing and collaboration agreement, Transition will receive exclusive worldwide rights to develop and potentially commercialize a class of compounds that, in preclinical models showed potential to provide glycemic control and other beneficial effects including weight loss.

Under the terms of the agreement, Lilly received an up-front payment of US\$1 million and retained the option to reacquire the rights to the compounds at a later date. The up-front payment of \$1,055,900 (US\$1 million) has been capitalized as a license acquired from Lilly and will be amortized over 20 years which represents the estimated remaining life of the underlying compounds and patents.

In June 2013, Lilly exercised their option and assumed all development and commercialization rights to type 2 diabetes drug candidate TT401. In conjunction with this assumption of rights, Transition received a milestone payment of \$7,118,300 (US\$7 million) which has been recognized as revenue during the year ended June 30, 2013. Lilly has assumed all costs and will perform all future development and commercialization activities of TT401. In fiscal 2015, Transition has paid US\$14 million (\$15,491,600) to Lilly in three separate installments during the Phase 2 clinical study. In return, Transition is eligible to receive up to approximately US\$240 million in additional

milestone payments and will also be eligible to receive a double-digit royalty on sales of TT401 products and a low single digit royalty on related compounds. The Company has no further funding obligations under the Agreement.

- (b) On May 6, 2015, the Company, through its wholly owned subsidiary Transition Therapeutics Ireland Limited (“TTIL”), exclusively licensed worldwide rights to a novel small molecule drug candidate, TT701 from Lilly. Under the terms of the agreement, TTIL has acquired the rights to develop and commercialize TT701. Transition will pay Lilly upfront consideration of up to US\$1 million. As of June 30, 2015, Transition has paid Lilly \$624,500 (US\$500,000) of the upfront consideration and this payment has been capitalized as a license acquired from Lilly and will be amortized over the estimated remaining life of 12.5 years. The remaining upfront payment of US\$500,000 is due upon first patient enrollment in a clinical trial and is expected to be paid in fiscal 2016 once the milestone is achieved.

9. SHARE CAPITAL

[a] Authorized

At December 31, 2015, the authorized share capital of the Company consists of an unlimited number of no par value common shares. The common shares are voting and are entitled to dividends if, as and when declared by the Board of Directors.

[b] Common shares issued and outstanding during the period

At December 31, 2015, there were 38,878,879 common shares issued and outstanding [June 30, 2015 – 38,878,879].

Warrants

Details of whole warrants outstanding at December 31, 2015 are as follows:

Warrants	#	Fair Value at Date of Issuance \$	Expiry Date
US\$4.60 Warrants issued August 15, 2013	853,223	1,108,107	August 15, 2015
US\$6.50 Warrants issued August 15, 2013	1,050,118	917,732	August 15, 2015
US\$7.10 Warrants issued June 23, 2014	1,949,250	3,150,558	June 23, 2016
Warrants outstanding at June 30, 2015	3,852,591	5,176,397	
US\$4.60 Warrants expired August 15, 2015	(853,223)	(1,108,107)	
US\$6.50 Warrants expired August 15, 2015	(1,050,118)	(917,732)	
Warrants outstanding at December 31, 2015	1,949,250	3,150,558	

On August 15, 2015, the warrants issued on August 15, 2013 expired unexercised and accordingly, the carrying value of the expired warrants of \$2,025,839 was reclassified to contributed surplus during the three month period ending September 30, 2015.

The remaining warrants outstanding at December 31, 2015 have a total fair value at date of issuance of \$3,150,558 which was calculated using the Black-Scholes pricing model.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (Unaudited, in Canadian dollars)

[c] Stock Options

Stock options	#	\$	Weighed Average Exercise Price \$
Stock options outstanding, July 1, 2015	2,755,764	5,892,305	4.82
Stock options expired [i]	(175,000)	(372,400)	3.48
Stock options forfeited or cancelled [ii]	(172,384)	-	7.16
Stock based compensation expense	-	952,475	-
Stock options outstanding, December 31, 2015	2,408,380	6,472,380	4.75

Stock options	#	\$	Weighed Average Exercise Price \$
Stock options outstanding, July 1, 2014	2,305,589	2,866,292	3.91
Stock options issued [iii]	45,000	-	7.53
Stock options exercised [iv]	(12,170)	(18,535)	2.18
Stock options forfeited or cancelled [ii]	(18,484)	-	5.58
Stock based compensation expense	-	1,565,220	-
Stock options outstanding, December 31, 2014	2,319,935	4,412,977	3.97

- [i] During the six month period ended December 31, 2015, 175,000 stock options expired unexercised. These stock options had a fair value of \$372,400 which was reclassified to contributed surplus.
- [ii] During the six month period ended December 31, 2015, 172,384 stock options were cancelled. These options had a fair value of \$885,865 and were unvested at the time of cancellation. During the six month period ended December 31, 2014, 18,484 stock options were forfeited. These options had a fair value of \$75,971 and were unvested at the time of forfeit.
- [iii] No stock options were issued during the six month period ended December 31, 2015. The fair value of the 45,000 stock options issued during the six month period ended December 31, 2014 was \$248,411.
- [iv] No stock options were exercised during the six month period ended December 31, 2015. During the six month period ended December 31, 2014, 12,170 stock options were exercised. These options had a fair value of \$18,535 and resulted in cash proceeds to the Company of \$26,229.
- [v] The maximum possible cash proceeds to the Company from the exercise of the stock options outstanding at December 31, 2015 are \$11,430,633 [June 30, 2015 - \$13,274,428].

10. EXPENSES BY NATURE

	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$
Research and development				
Clinical trials and manufacturing	4,285,705	28,671,103	648,649	14,356,285
Salaries and benefits	1,372,201	1,794,558	520,917	911,258
Stock compensation expense	175,420	869,778	211,407	359,889
Depreciation and amortization	329,001	310,687	164,632	155,343
Facility lease costs and utilities	141,581	148,953	71,249	63,573
Insurance	33,273	101,911	17,601	44,833
General laboratory supplies and materials	51,245	128,451	28,491	56,876
Ontario investment tax credits	-	(85,661)	-	(43,168)
	6,388,426	31,939,780	1,662,946	15,904,889
Selling, general and administrative expenses				
Salaries and benefits	909,756	839,900	444,825	422,939
Professional fees and services	249,419	357,716	122,314	159,248
Insurance	130,693	129,316	69,111	67,139
Stock compensation expense	777,055	695,442	323,553	313,677
Facility lease costs and utilities	80,704	76,238	42,420	38,119
Business development, corporate communication and investor relations	186,991	204,706	121,827	89,120
Regulatory and stock transfer fees	40,717	54,501	13,274	26,716
Office and related expenses	121,321	127,986	59,178	70,096
Business taxes	79,000	-	477	-
Depreciation and amortization	43,546	23,476	21,815	16,395
	2,619,202	2,509,281	1,218,794	1,203,449

11. EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Outstanding options to purchase common shares of 2,408,380 [December 31, 2014 – 2,319,935] and warrants of 1,949,250 [December 31, 2014 – 3,852,591] are not included in the calculation of diluted loss per share as the effect is anti-dilutive due to losses incurred in the six and three month periods ended December 31, 2015 and 2014.

For the six and three month periods ended December 31, 2015 and 2014, 79,908 contingently returnable common shares were excluded from the basic and diluted net loss per common share calculation. The contingently returnable common shares relate to employment contracts and will be released from escrow based on the achievement of certain corporate milestones.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 (Unaudited, in Canadian dollars)

	Six month period ended December 31, 2015	Six month period ended December 31, 2014	Three month period ended December 31, 2015	Three month period ended December 31, 2014
Loss attributable to equity holders of the Company	\$(6,497,236)	\$(32,605,463)	\$(2,005,780)	\$(16,910,139)
Weighted average number of common shares outstanding	38,798,971	35,227,705	38,798,971	35,229,357

12. CONTINGENCIES AND COMMITMENTS

At December 31, 2015, the Company is committed to aggregate expenditures of approximately \$1,993,000 [June 30, 2015 - \$3,541,000] for clinical and toxicity studies to be completed during fiscal 2016, approximately \$51,000, [June 30, 2015 - \$215,000] for manufacturing agreements and approximately \$156,000 [June 30, 2015 - \$327,000] for consulting and other agreements.

The Company may also be required to pay commercial milestone payments of US\$10,000,000 to Brigham and Women's Hospital in respect of TT701.

13. CHANGE IN WORKING CAPITAL

The change in working capital consists of the following:

	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$
Other receivables	192,636	(1,167,342)	257,607	(1,183,648)
Income tax and investment tax credits receivable	-	(272,936)	-	(230,443)
Prepaid expenses and deposits	(69,778)	(204,402)	127,039	85,026
Trade and other payables	(6,939,502)	(2,006,111)	(1,858,409)	(2,089,552)
	(6,816,644)	(3,650,791)	(1,473,763)	(3,418,617)

14. RELATED PARTY TRANSACTIONS

Key management compensation

Key management includes the Company's directors, and members of the senior management team. The compensation paid or payable to key management for employee services is show below:

	Six month period ended December 31, 2015 \$	Six month period ended December 31, 2014 \$	Three month period ended December 31, 2015 \$	Three month period ended December 31, 2014 \$
Salaries and other short-term employee benefits	851,826	1,046,777	373,912	530,680
Stock-compensation expenses	780,160	1,107,302	405,261	462,472
Termination benefits	127,542	-	-	-
	1,759,528	2,154,079	779,173	993,152

During the three month period ended September 30, 2015, the Chief Medical Officer and the ELND005 Program Lead left the Company, which resulted in a termination payment of \$127,542.

15. SEGMENTED DISCLOSURE

The Company operates in one operating segment, the research and development of therapeutic agents. The Company's non-current assets are primarily located in Canada.

BOARD OF DIRECTORS

Michael R. D. Ashton: Independent consultant to the pharmaceutical industry and former CEO of SkyePharma PLC

Paul Baehr: President, CEO and Chairman of IBEX Technologies Inc.

Dr. Tony Cruz: Chairman and CEO of Transition Therapeutics Inc.

Christopher Henley: President of Henley Capital Corporation

Dr. Gary W. Pace: Chairman and Founder of Sova Pharmaceuticals Inc., Founder, Director and former Chairman and CEO of QRxPharma Ltd.

CORPORATE INFORMATION

Corporate Office

220 - 101 College Street,
Toronto, Ontario, Canada M5G 1L7
Tel. 416-260-7770

Executive Officers

Dr. Tony Cruz, Chairman and CEO

Carl Damiani, President and COO

Nicole Rusaw, CFO

Dr. Aleksandra Pastrak, VP Clinical Development and Medical Officer

Dr. Bruce Connop, VP Non-Clinical & Pharmaceutical Development

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario, Canada

Transfer Agents

Canada:

Computershare Investor Services Inc.
Tel. 800-564-6253

USA:

Computershare Trust Company, NA
Tel. 303-262-0600

LEGAL COUNSEL

Securities:

Canada:

Michael J. Bennett, McCarthy Tétrault LLP

USA:

Brett Cooper, Orrick, Herrington & Sutcliffe LLP

CORPORATE SECRETARY

Louis Alexopoulos, Sotos LLP