TRANSITION THERAPEUTICS INC.

2016 THIRD QUARTER FINANCIAL REPORT

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TO OUR SHAREHOLDERS

Fiscal Q3 2016 is highlighted by the announcement of top-line results from our diabetes drug candidate TT401. In parallel, the Company has commenced an interaction with the FDA to assess the future development plan for the ELND005 program. Subsequent to the quarter end, the Company also announced the start of the TT701 Phase 2 study in prostate cancer patients that have undergone a radical prostatectomy procedure and Lilly's decision on TT401 Phase 3 development.

Neuropsychiatric Drug Candidate ELND005

ELND005 is an orally bioavailable small molecule with an extensive clinical program of completed Phase 1 and Phase 2 studies. This drug candidate is being investigated for Alzheimer's related disease indications on the basis of its proposed dual mechanism of action, which includes β-amyloid anti-aggregation and regulation of brain myo-inositol levels. A Phase 2/3 study in 350 Alzheimer's patients with agitation and aggression was completed in 2015. Although the primary endpoint of the study was not met, a post-hoc analysis did identify a patient population with moderate and severe agitation and aggression that showed a significant improvement with 12 weeks of ELND005 treatment.

Based on these findings and a subsequent response from the FDA, the Company is performing a further analysis of the Phase 2 data to address questions raised by the FDA and assess the future development of the ELND005 program.

Diabetes Drug Candidate TT401

TT401 is a once-weekly administered oxyntomodulin analog, with dual agonist activity on the GLP1 and Glucagon receptors. TT401 is the most clinically advanced drug candidate among the new class of GLP1-glucagon receptor dual agonists. The product profile for this class of diabetes drug candidates is to provide type 2 diabetes individuals with blood-glucose control and greater weight loss than GLP1 single agonists.

In February 2016, the Company announced the top line results from a recently completed Phase 2 study of 420 type 2 diabetes individuals. The highest dose of TT401 once-weekly administered peptide demonstrated significantly superior weight loss to currently approved extended release exenatide and placebo after 12 and 24 weeks of treatment. TT401 also provided similar HbA1c reduction as exenatide at weeks 12 and 24. The study demonstrated that TT401 had an acceptable safety and tolerability profile consistent with GLP-1 single agonists.

Following this data announcement, Lilly had a designated time period to review the data and elect to advance TT401 to Phase 3 development. On April 18, 2016, the Company announced that it has received notification that Lilly will not elect to advance diabetes drug candidate, TT401 into Phase 3 development. Under the companies' collaboration agreement, all TT401 development and commercialization rights will be transferred to Transition. The royalty that Transition is eligible to receive on sales of related Lilly compounds remains unaffected. Going forward, Lilly will be eligible to receive a royalty on future TT401 sales and a royalty on TT401 non-royalty income.

Transition is unencumbered to advance TT401 on its own or with a third party. Transition is preparing a development plan for the clinical advancement of TT401. The superior activity of TT401 over exenatide extended release in weight reduction together with the late clinical stage of this asset relative to other GLP1-glucagon dual agonist drug candidates provides a unique opportunity for Transition. We look to advance TT401, and in parallel, identify a well-suited commercialization partner for Phase 3 clinical development activities and commercialization preparations.

Selective Androgen Receptor Modulator Drug Candidate TT701

Prostate cancer is the most common cancer in men in the US, with its incidence rising due to effective screening with the Prostate Specific Antigen "PSA" test. Most of these men have organ-confined prostate cancer and excellent prospects of long term survival. Substantial improvement in survival in men with prostate cancer has now focused attention on the high prevalence of bothersome symptoms which reduce their overall quality of life. These symptoms include sexual

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and physical dysfunction and low vitality. Therapeutic strategies are required to identify drug candidates to aid these men living with these symptoms. One such therapeutic strategy is to target androgen deficiency, an important and potentially remediable contributor to these symptoms. TT701, a selective androgen receptor modulator (SARM), is mechanistically well positioned to address androgen deficiency and provide benefit to these patients.

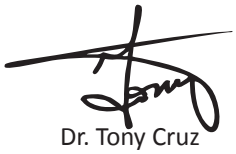
In April 2016, the Company announced the dosing of the first patient of a Phase 2 study of SARM drug candidate TT701. The Phase 2 study is evaluating the efficacy and safety of TT701 in improving the symptoms of androgen deficiency (sexual symptoms, fatigue/low vitality, and physical dysfunction) in men with prostate cancer who have undergone radical prostatectomy for organ-localized prostate cancer. Brigham and Women's Hospital (BWH) is conducting the investigator-led Phase 2 clinical study which is expected to enroll up to 125 subjects at selected specialized clinical sites including BWH. The principal investigator for the Phase 2 study is Dr. Shalender Bhasin, Director of the Research Program in Men's Health: Aging and Metabolism at BWH and an internationally recognized endocrinologist with expertise in testosterone biology and men's aging.

Looking Ahead

The Company is approaching the future with a balanced perspective on building value with its existing drug candidates and leveraging its financial assets and development team to identify additional programs that will grow the product pipeline. For ELND005, our interaction with the FDA will provide guidance on future development and determine the options for advancement of this asset. The transfer of all TT401 development and commercialization rights to Transition provides the opportunity to access the economics of a Phase 2 diabetes product candidate with demonstrated superiority on weight loss to a current leading therapy. The start of the TT701 Phase 2 study allows for partnering with a clinical leader in testosterone biology to meet a growing medical need that cannot be addressed with current standards of androgen replacement therapy, such as testosterone.

In parallel with these existing programs, the Company has a strong drug development team and a unique skill set for partnerships with large pharma and biotech companies. The Company has been in discussions with potential partners on the acquisition of new development programs to drive future growth.

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 nine month periods ended March 31, 2016 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 nine month periods ended March 31, 2016 as compared to the three and nine month periods ended March 31, 2015. This review was performed by management with information available as of May 6, 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; 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

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, metabolic disease and androgen deficiency 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 as well as drug candidate TT701, a selective androgen receptor molecule. Transition's lead metabolic drug candidate is TT401 for the treatment of type 2 diabetes and accompanying obesity.

Highlights for the Company during the nine month period ended March 31, 2016 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

- ***April 18, 2016 – Transition announced that Lilly will not elect to advance diabetes drug candidate, TT401 into Phase 3 development.*** Under the companies' collaboration agreement, all TT401 development and commercialization rights will be transferred to Transition. Transition is unencumbered to advance TT401 on its own or with a third party;
- ***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:

- ***April 25, 2016 – Transition announced the dosing of the first patient of a Phase 2 study of selective androgen receptor modulator (SARM) drug candidate TT701.*** Brigham and Women's Hospital (BWH) is conducting the investigator-led Phase 2 clinical study which is expected to enroll up to 125 subjects at selected specialized clinical sites including BWH. The principal investigator for the Phase 2 study is Dr. Shalender Bhasin, Director of the Research Program in Men's Health: Aging and Metabolism at BWH and an internationally recognized endocrinologist with expertise in testosterone biology and men's aging;
- ***October 29, 2015 – Transition announced that its subsidiary, TTIL, has entered into an agreement with BWH for an investigator-led clinical study of drug candidate TT701.*** TTIL will support a Phase 2 study to evaluate 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 had assumed all costs and the rights to 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 had no additional funding obligations related to the Phase 2 clinical study.

On April 18, 2016, the Company received notification that Lilly will not elect to advance diabetes drug candidate, TT401 into Phase 3 development. Under the terms of the collaboration agreement, all TT401 development and commercialization rights will be transferred to Transition and the Company is unencumbered to advance TT401 on its own or with a third party. The royalty that Transition is eligible to receive on sales of related Lilly compounds remains unaffected. Going forward, Lilly will be eligible to receive a royalty on future TT401 sales and a royalty on TT401 non-royalty income.

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-myo-inositol 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 nine month periods ended March 31, 2016 and 2015, the Company incurred direct research and development costs for this program as follows:

ELND005 Program[1]	Three month period ended March 31, 2016 $	Three month period ended March 31, 2016 $	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $
Pre-clinical studies	-	-	-	-
Clinical studies	198,031	2,082,534	3,098,569	11,816,787
Manufacturing	41,019	131,800	55,978	602,816
Other direct research	148,291	539,846	670,421	1,692,515
TOTAL	387,341	2,754,180	3,824,968	14,112,118

[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 had amended their agreement to address future development of TT401 and associated financial arrangements. Lilly had assumed all costs and the rights to 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 fiscal 2015, Transition made three separate installments to Lilly to support the Phase 2 clinical study totaling US$14 million and the Company had no further funding obligations to Lilly under the collaboration agreement.

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 Lilly 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.

In April 2016, Lilly elected not to advance diabetes drug candidate, TT401 into Phase 3 development. Under the companies' collaboration agreement, all TT401 development and commercialization rights will be transferred to Transition. Transition is unencumbered to advance TT401 on its own or with a third party. The royalty that Transition is eligible to receive on sales of related Lilly compounds remains unaffected. Going forward, Lilly will be eligible to receive a royalty on future TT401 sales and a royalty on TT401 non-royalty income.

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.

On April 25, 2016 the Company announced the dosing of the first patient of a Phase 2 study of SARM drug candidate TT701. The Phase 2 study will evaluate the efficacy and safety of TT701 in improving the symptoms of androgen deficiency (sexual symptoms, fatigue/low vitality, and physical dysfunction) in men with prostate cancer who have undergone radical prostatectomy for organ-localized prostate cancer. Brigham and Women's Hospital (BWH) is conducting the investigator-led Phase 2 clinical study which is expected to enroll up to 125 subjects at selected specialized clinical sites including BWH. The principal investigator for the Phase 2 study is Dr. Shalender Bhasin, Director of the Research Program in Men's Health: Aging and Metabolism at BWH and an internationally recognized endocrinologist with expertise in testosterone biology and men's aging.

Expenditures for the TT701 Program

During the three and nine month periods ended March 31, 2016 and 2015, the Company incurred direct research and development costs for this program as follows:

TT-701 Program[1]	Three month period ended March 31, 2016 $	Three month period ended March 31, 2016 $	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $
Pre-clinical studies	-	-	-	-
Clinical studies	-	-	-	-
Manufacturing	(17,336)	-	136,618	-
Other direct research	4,955	-	24,076	-
TOTAL	(12,381)	-	160,694	-

[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:

DRUG	INDICATION	PHASE 1	PHASE 2	PHASE 3
ELND005	Agitation and aggression in Alzheimer's disease		Phase 2 completed	
ELND005	Down syndrome		Phase 2A completed	
TT401	Type 2 diabetes with obesity		Phase 2 completed	
TT701	Androgen deficiency		Phase 2 Initiated	

RESULTS OF OPERATIONS

During the three month period ended March 31, 2016, the Company recorded a net loss of $4,177,942 ($0.11 loss per common share) compared to a net loss of $4,748,096 ($0.13 loss per common share) for the three month period ended March 31, 2015.

For the nine month period ended March 31, 2016, the Company recorded a net loss of $10,675,178 ($0.28 loss per common share) compared to a net loss of $37,353,559 ($1.04 loss per common share) for the nine month period ended March 31, 2015.

The decreases in net loss of $570,154 and $26,678,381 for the three and nine month periods ended March 31, 2016 is primarily 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. The decrease in net loss during the three month period ended March 31, 2016 has been partially offset by changes in foreign exchange gains/losses resulting from Canadian currency fluctuations.

Research and Development

Research and development expenses decreased by $3,309,363 from $4,888,272 for the three month period ended March 31, 2015 to $1,578,909 for the three month period ended March 31, 2016. For the nine month period ended March 31, 2016, research and development expenses decreased $28,860,717 to $7,967,335 from $36,828,052 for the same period in fiscal 2015.

The decreases in research and development expenses for both the three and nine month periods ended March 31, 2016 are primarily due to a decrease in clinical development costs related to ELND005 and reduced salary and related expenses which resulted from cost cutting efforts. The decrease in research and development expenses for the nine month period ended March 31, 2016 is also due to a decrease in funding obligations relating to TT401 as the Company paid US$14 million in milestone payments to Lilly during the comparative nine month period.

The Company anticipates research and development expenses for the fourth quarter of fiscal 2016 will increase as the Company commences quarterly research payments to BWH for the development of TT701.

General and Administrative

General and administrative expenses decreased by $69,073 from $1,268,531 for the three month period ended March 31, 2015 to $1,199,458 for the three month period ended March 31, 2016. For the nine month period ended March 31, 2016, general and administrative expenses increased $40,848 to $3,818,660 from $3,777,812 for the same period in fiscal 2015.

The decrease in general and administrative expenses for the three month period ended March 31, 2016 are primarily due to reduced professional fees which have been partially offset by inflationary increases in compensation costs.

The increase in general and administrative expenses for the nine month period ended March 31, 2016 are primarily due to business taxes paid for the Company's US subsidiary and inflationary increases in compensation costs which have been partially offset by reduced professional fees.

The Company anticipates that general and administrative expenses in the fourth quarter of fiscal 2016 will remain relatively consistent with the third 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 March 31, 2016.

	First Quarter $	Second Quarter $	Third Quarter $	Fourth Quarter $
2016				
Revenue	-	-	-	
Net loss[1]	(4,491,456)	(2,005,780)	(4,177,942)	
Basic and diluted net income (loss) per common share	(0.12)	(0.05)	(0.11)	
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]				(13,130,005)
Basic and diluted net income (loss) per common share				(0.43)

[1] Net loss before discontinued operations was equivalent to the net 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, changes in activity levels of the clinical trials being performed by the Company and foreign exchange gains/losses.

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 $1,546,722. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would reduce the contingent consideration payable by $1,628,088;

(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 $1,129,010. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by $1,592,898.

There were no significant changes in the assumptions for the three and nine month periods ended March 31, 2016. The Company has recognized a change in fair value of contingent consideration payable of $2,005 and $232,427 during the three and nine month periods ended March 31, 2016 (three and nine month periods ended March 31, 2015 - $276,739 and $747,698) mainly related to the passage of time.

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 January 1, 2016 and ending March 31, 2016 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 March 31, 2016 of $233,129,877. 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 $24,768,772 at March 31, 2016 as compared to $40,510,758 at June 30, 2015, resulting in a decrease of $15,741,986. The Company's working capital position at March 31, 2016 decreased $8,931,283 from $32,026,606 at June 30, 2015 to $23,095,324 at March 31, 2016.

The decrease in the Company's cash and working capital is primarily due to the expenditures incurred during the nine month period ended March 31, 2016.

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.

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	180,197	331,904	191,450	-	703,551
Clinical and toxicity study agreements	1,023,946	1,023,946	-	-	2,047,892
Manufacturing agreements	49,834	-	-	-	49,834
Contingent Consideration Payable	2,847,759	-	-	60,016,760	62,864,519
Other	126,149	-	-	-	126,149
TOTAL	**4,227,885**	**1,355,850**	**191,450**	**60,016,760**	**65,791,945**

Contractual obligations denominated in U.S. dollars have been translated to Canadian dollars using the exchange rate at March 31, 2016 of 1.2987.

On April 25, 2016 the Company announced the dosing of the first patient of a Phase 2 study of selective androgen receptor modulator (SARM) drug candidate TT701. As a result, the Company will pay Lilly the final remaining upfront milestone payment of US$500,000. This payment will be capitalized as an intangible asset when paid in the fourth quarter of fiscal 2016.

The Company may also be required to pay commercial milestone payments of US$10,000,000 to BWH 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 May 6, 2016 the Company has 38,878,879 common shares outstanding.

Stock Options

As at May 6, 2016, the Company has 2,320,812 stock options outstanding with exercise prices ranging from $2.09 to $10.19 and various expiry dates extending to June 14, 2025. At May 6, 2016, on an if-converted basis, these stock options would result in the issuance of 2,320,812 common shares in the capital of the Company at an aggregate exercise price of $10,839,955.

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 May 6, 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.

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine and three months ended March 31, 2016 and 2015
(Unaudited)

CONSOLIDATED BALANCE SHEETS

(Unaudited)

In Canadian Dollars	Note	As at March 31, 2016 $	As at June 30, 2015 $
Assets			
Current assets			
Cash		24,768,772	40,510,758
Other receivables		53,348	265,189
Income tax and investment tax credits receivable		424,355	399,668
Prepaid expenses and deposits		157,126	259,143
		25,403,601	41,434,758
Non-current assets			
Property and equipment		133,351	191,944
Intangible assets	5	7,554,259	8,022,383
Total assets		33,091,211	49,649,085
Liabilities			
Current liabilities			
Trade and other payables	6	1,406,388	8,549,895
Contingent consideration payable	7	901,889	858,257
		2,308,277	9,408,152
Non-current liabilities			
Contingent consideration payable	7	3,804,036	3,503,344
Total liabilities		6,112,313	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		17,458,649	14,771,907
Share-based payment reserve	9	6,519,525	5,892,305
Accumulated other comprehensive income		(643,501)	(281,814)
Deficit		(233,129,877)	(222,454,699)
Total equity		26,978,898	36,737,589
Total liabilities and equity		33,091,211	49,649,085
Contingencies and commitments	12		

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

On behalf of the Board:

Tony Cruz, Director Christopher Henley, Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the nine and three months ended March 31, 2016 and 2015
(Unaudited)

In Canadian Dollars, except per share data	Note	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $	Three month period ended March 31, 2016 $	Three month period ended March 31, 2015 $
Expenses					
Research and development	10	7,967,335	36,828,052	1,578,909	4,888,272
Selling, general and administrative expenses	10	3,818,660	3,777,812	1,199,458	1,268,531
Operating Loss		(11,785,995)	(40,605,864)	(2,778,367)	(6,156,803)
Change in fair value of contingent consideration payable	7	(232,427)	(747,698)	(2,005)	(276,739)
Interest income		97,923	146,551	34,204	34,304
Foreign exchange gain (loss)		1,247,393	3,930,317	(1,429,702)	1,728,007
Loss on disposal of property and equipment		(2,072)	(76,865)	(2,072)	(76,865)
Net loss for the period		(10,675,178)	(37,353,559)	(4,177,942)	(4,748,096)
Other comprehensive loss for the period					
Items that may be subsequently reclassified to net income:					
Cumulative translation adjustment		(361,687)	35,596	19,247	75,272
Comprehensive loss for the period		(11,036,865)	(37,317,963)	(4,158,695)	(4,672,824)
Basic and diluted net loss per common share	11	(0.28)	(1.04)	(0.11)	(0.13)

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the nine months ended March 31, 2016 and 2015
(Unaudited)

In Canadian Dollars	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		-	(9,949)
Share options exercised, expired or cancelled	9	-	-
Warrants expired	9	-	-
Share-based payment compensation expense	9	-	-
Balance, March 31, 2016		38,878,879	233,623,544
Balance, July 1, 2014		35,303,913	207,374,493
Net loss for the period		-	-
Cumulative translation adjustment		-	-
Issued pursuant to a public offering, net	9	3,538,461	26,076,759
Share options exercised, expired or cancelled	9	17,009	67,286
Share-based payment compensation expense	9	-	-
Balance, March 31, 2015		38,859,383	233,518,538

The notes are an integral part of these consolidated interim 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
-	-	-	-	(10,675,178)	(10,675,178)
-	-	-	(361,687)	-	(361,687)
-	-	-	-	-	(9,949)
-	660,903	(660,903)	-	-	-
(2,025,839)	2,025,839	-	-	-	-
-	-	1,288,123	-	-	1,288,123
3,150,558	17,458,649	6,519,525	(643,501)	(233,129,877)	26,978,898
5,176,397	14,768,221	2,866,292	24,028	(171,115,171)	59,094,260
-	-	-	-	(37,353,559)	(37,353,559)
-	-	-	35,596	-	35,596
-	-	-	-	-	26,076,759
-	3,686	(31,717)	-	-	39,255
-	-	2,066,589	-	-	2,066,589
5,176,397	14,771,907	4,901,164	59,624	(208,468,730)	49,958,900

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine and three month periods ended March 31, 2016 and 2015
(Unaudited)

In Canadian Dollars	Note	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $	Three month period ended March 31, 2016 $	Three month period ended March 31, 2015 $
Cash flows from operating activities					
Net loss for the period		(10,675,178)	(37,353,559)	(4,177,942)	(4,748,096)
Adjustments for:					
Change in fair value of contingent consideration payable		232,427	747,698	2,005	276,739
Depreciation and amortization		554,549	486,628	182,002	153,802
Share-based payment compensation expense		1,288,123	2,066,589	335,647	501,369
Loss on disposal of property and equipment		2,072	76,865	2,072	76,865
Accrued interest		-	34,562	-	-
Unrealized foreign exchange gain (loss)		(1,086,396)	(2,277,283)	1,502,650	(1,481,136)
Change in working capital	13	(7,252,539)	(3,002,269)	(435,895)	648,522
Net cash used in operating activities		(16,936,942)	(39,220,769)	(2,589,461)	(4,571,935)
Cash flows from investing activities					
Maturity of short term investments		-	3,025,000	-	-
Purchase of property and equipment		(2,423)	(159,063)	(1,736)	(39,341)
Net cash (used in) provided by investing activities		(2,423)	2,865,937	(1,736)	(39,341)
Cash flows from financing activities					
Net proceeds from issuance of common shares and warrants		(9,949)	26,076,759	-	26,076,759
Proceeds from share options exercised	9	-	39,255	-	13,026
Net cash provided by (used in) financing activities		(9,949)	26,116,014	-	26,089,785
Foreign exchange gains (loss) on cash		1,207,328	3,275,283	(1,710,220)	2,013,636
Net (decrease) increase in cash		(15,741,986)	(6,963,535)	(4,301,417)	23,492,145
Cash at beginning of period		40,510,758	57,212,004	29,070,189	26,756,324
Cash at end of period		24,768,772	50,248,469	24,768,772	50,248,469

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

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 May 6, 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.

March 31, 2016 (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 March 31, 2016	Classification	Carrying Value $	Fair Value $
Cash	Loans and receivables	24,768,772	24,768,772
Other receivables	Loans and receivables	53,348	53,348
Trade and other payables	Other liabilities	1,406,388	1,406,388
Contingent consideration payable	Fair value through profit and loss	4,705,925	4,705,925

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 other payables 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 $1,546,722. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would decrease the contingent consideration payable by $1,628,088;

(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 $1,129,010. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by $1,592,898.

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 March 31, 2016 and June 30, 2015 are approximately:

	March 31, 2016 US$	June 30, 2015 US$
Cash	18,040,608	30,544,014
Trade and other payables	(58,294)	(102,464)
	17,982,314	30,441,550

Fluctuations in the US dollar exchange rate could potentially have a significant impact on the Company's results. At March 31, 2016, if the Canadian dollar weakened 10% against the US dollar, with all other variables held constant, net loss for the nine month period ended March 31, 2016 would have decreased by approximately $1,410,000. Conversely, if the Canadian dollar strengthened 10% against the US dollar, with all other variables held constant, net loss for the nine month period ended March 31, 2016 would have increased by approximately $1,410,000.

(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 March 31, 2016 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	$17,258,664
Fiscal year ending June 30, 2023	$19,480,500
Fiscal year ending June 30, 2024	$19,480,500

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.

March 31, 2016 (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 nine month period ended March 31, 2016 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 March 31, 2016				
Cost	20,547,993	1,055,900	649,350	22,253,243
Accumulated amortization	(14,334,084)	(321,616)	(43,284)	(14,698,984)
Net book value March 31, 2016	6,213,909	734,284	606,066	7,554,259
Period ended March 31, 2016				
Opening net book value	6,628,164	773,881	620,338	8,022,383
Amortization charge	(414,255)	(39,597)	(39,122)	(492,974)
Foreign exchange	-	-	24,850	24,850
Net book value March 31, 2016	6,213,909	734,284	606,066	7,554,259

	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:

	March 31, 2016 $	June 30, 2015 $
Accounts payable	320,679	2,594
Accrued expenses:		
Clinical trials and manufacturing	421,297	7,769,521
Salaries and benefits	288,089	398,017
Professional fees and services	286,555	235,477
Other	89,768	144,286
	1,085,709	8,547,301
	1,406,388	8,549,895

March 31, 2016 (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 March 31, 2016 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 March 31, 2016 of $3,203,349 (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	159,735	232,427
Foreign exchange	-	111,897	111,897
Balance at December 31, 2015	1,502,576	3,203,349	4,705,925

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) On 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. In fiscal 2015, Transition paid US$14 million ($15,491,600) to Lilly in three separate installments during the Phase 2 clinical study.

Subsequent to March 31, 2016, the Company received notification that Lilly will not elect to advance diabetes drug candidate, TT401 into Phase 3 development. Under the terms of the collaboration agreement, all TT401 development and commercialization rights will be transferred to Transition and the Company is unencumbered to advance TT401 on its own or with a third party. The royalty that Transition is eligible to receive on sales of related Lilly compounds remains unaffected. Going forward, Lilly will be eligible to receive a royalty on future TT401 sales and a royalty on TT401 non-royalty income.

(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. This milestone was achieved subsequent to March 31, 2016 and will be capitalized as an intangible asset when paid in the fourth quarter of fiscal 2016.

9. SHARE CAPITAL

[a] Authorized

At March 31, 2016, 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 March 31, 2016, there were 38,878,879 common shares issued and outstanding [June 30, 2015 – 38,878,879].

On February 18, 2015, the Company announced the closing of its underwritten public offering of an aggregate of 3,538,461 common shares at a price to the public of US$6.50 per share, including 461,538 common shares issued upon the exercise of the underwriters' over-allotment option, raising gross proceeds of $28,561,400 (US$23.0 million). The Company incurred total share issuance costs of $2,484,641, resulting in net cash proceeds of $26,076,759.

March 31, 2016 (Unaudited, in Canadian dollars)

Warrants

Details of whole warrants outstanding at March 31, 2016 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 March 31, 2016	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 March 31, 2016 have a total fair value at date of issuance of $3,150,558 which was calculated using the Black-Scholes pricing model.

[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]	(237,616)	(660,903)	4.22
Stock options forfeited or cancelled [ii]	(194,143)	-	7.23
Stock based compensation expense		1,288,123	
Stock options outstanding, March 31, 2016	2,324,005	6,519,525	4.68

Stock options	#	$	Weighed Average Exercise Price $
Stock options outstanding, July 1, 2014	2,305,589	2,866,292	3.91
Stock options issued [iii]	453,500	-	7.86
Stock options exercised [iv]	(17,009)	(28,031)	2.32
Stock options expired [i]	(832)	(3,686)	6.00
Stock options forfeited or cancelled [ii]	(30,988)	-	5.75
Stock based compensation expense		2,066,589	
Stock options outstanding, March 31, 2015	2,710,260	4,901,164	4.67

[i] During the nine month period ended March 31, 2016, 237,616 stock options expired unexercised. These stock options had a fair value of $660,903 which was reclassified to contributed surplus. During the nine month period ended March 31, 2015, 832 stock options expired unexercised. These stock options had a fair value of $3,686 which was reclassified to contributed surplus.

[ii] During the nine month period ended March 31, 2016, 194,193 stock options were cancelled. These options had a fair value of $1,006,324 and were unvested at the time of cancellation. During the nine month period ended March 31, 2015, 30,988 stock options were forfeited. These options had a fair value of $131,363 and were unvested at the time of forfeit.

[iii] No stock options were issued during the nine month period ended March 31, 2016. The fair value of the 453,500 stock options issued during the nine month period ended March 31, 2015 was $2,490,420.

[iv] No stock options were exercised during the nine month period ended March 31, 2016. During the nine month period ended March 31, 2015, 17,009 stock options were exercised. These options had a fair value of $28,031 and resulted in cash proceeds to the Company of $39,255.

[v] The maximum possible cash proceeds to the Company from the exercise of the stock options outstanding at March 31, 2016 are $10,867,830 [June 30, 2015 - $13,274,428].

March 31, 2016 (Unaudited, in Canadian dollars)

10. EXPENSES BY NATURE

	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $	Three month period ended March 31, 2016 $	Three month period ended March 31, 2015 $
Research and development				
Clinical trials and manufacturing	5,091,702	31,719,913	805,799	3,048,810
Salaries and benefits	1,832,925	2,678,807	460,724	884,249
Stock compensation expense	257,112	1,113,936	81,692	244,158
Depreciation and amortization	493,807	461,971	165,004	151,284
Facility lease costs and utilities	181,363	221,598	39,782	72,645
Professional fees and services	-	189,174	-	48,333
Insurance	51,225	146,745	17,952	44,834
General laboratory supplies and materials	59,201	295,908	7,956	308,298
Ontario investment tax credits	-	-	-	85,661
	7,967,335	36,828,052	1,578,909	4,888,272
Selling, general and administrative expenses				
Salaries and benefits	1,361,669	1,301,848	451,914	461,948
Professional fees and services	360,181	527,928	110,762	170,212
Insurance	199,843	191,493	69,150	62,177
Stock compensation expense	1,031,011	952,654	253,955	257,212
Facility lease costs and utilities	126,847	114,836	46,143	38,598
Business development, corporate communication and investor relations	315,074	320,072	128,083	115,366
Regulatory and stock transfer fees	134,732	135,451	94,015	80,950
Office and related expenses	174,003	208,873	52,682	80,887
Business taxes	54,558	-	(24,442)	-
Depreciation and amortization	60,742	24,657	17,196	1,181
	3,818,660	3,777,812	1,199,458	1,268,531

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 2,324,005 [March 31, 2015 – 2,710,620] are not included in the calculation of diluted loss per share as the effect is anti-dilutive due to losses incurred in the nine and three month periods ended March 31, 2016 and 2015.

For the nine and three month periods ended March 31, 2016 and 2015, 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

	Nine month period ended March 31, 2016	Nine month period ended March 31, 2015	Three month period ended March 31, 2016	Three month period ended March 31, 2015
Loss attributable to equity holders of the Company	($10,675,178)	($37,353,559)	($4,177,942)	($4,748,096)
Weighted average number of common shares outstanding	38,798,971	35,773,180	38,798,971	36,888,372

12. CONTINGENCIES AND COMMITMENTS

At March 31, 2016, the Company is committed to aggregate expenditures of approximately $2,048,000 [June 30, 2015 - $3,541,000] for clinical and toxicity studies to be completed during fiscals 2016 to 2018, approximately $50,000 [June 30, 2015 - $215,000] for manufacturing agreements and approximately $126,000 [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:

	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $	Three month period ended March 31, 2016 $	Three month period ended March 31, 2015 $
Other receivables	211,841	(1,082,499)	19,205	84,843
Income tax and investment tax credits receivable	(24,687)	(187,275)	(24,687)	85,661
Prepaid expenses and deposits	102,017	(125,995)	171,795	78,407
Trade and other payables	(7,541,710)	(1,606,500)	(602,208)	399,611
	(7,252,539)	(3,002,269)	(435,895)	648,522

March 31, 2016 (Unaudited, in Canadian dollars)

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:

	Nine month period ended March 31, 2016 $	Nine month period ended March 31, 2015 $	Three month period ended March 31, 2016 $	Three month period ended March 31, 2015 $
Salaries and other short-term employee benefits	1,235,407	1,599,452	383,581	552,675
Stock-compensation expenses	1,086,303	1,470,889	306,143	363,587
Termination benefits	127,542	-	-	-
	2,449,252	3,070,341	689,724	916,262

During the three month period ended September 30, 2015, the Chief Medical Officer, ELND005 Program Lead left the Company, resulting 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.

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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

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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