TRANSITION THERAPEUTICS INC.

2015 YEAR-END FINANCIAL REPORT

LETTER TO SHAREHOLDERS

To Our Shareholders:

The focus of fiscal 2015 was on the clinical development of our lead drug candidates. Our Irish subsidiary, Transition Therapeutics Ireland Limited (TTIL), focused its efforts on the development of neuropsychiatric drug candidate, ELND005. Transition's other development subsidiary, Waratah Pharmaceuticals Inc., supported the clinical development of lead diabetes candidate TT401 as it progressed through a Phase 2 study, performed by partner Lilly. TTIL also expanded its development pipeline with the in-licensing of a selective androgen receptor modulator (SARM) compound targeting androgen deficiency. With multiple development programs, Transition continues its strategy of economically advancing parallel programs to create a series of potential value creation catalysts.

NEUROPSYCHIATRIC DRUG CANDIDATE – ELND005

In June 2015, the results from the Phase 2/3 clinical study of ELND005 in Alzheimer's disease (AD) patients with at least moderate levels of agitation and aggression were announced. The study did not meet its primary efficacy endpoint as both the treatment and placebo 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.

Since announcing the results, TTIL has been performing a thorough review of the study data from the Phase 2/3 trial. These results are being shared with a selected group of expert clinical advisors for their input on the potential future development of ELND005.

Since TTIL had been actively preparing for additional clinical studies prior to the data announcement, there is sufficient ELND005 drug product available for further late stage clinical studies. The TTIL development team has been diligently analyzing the data and compiling clinical study reports for the completed ELND005 agitation and aggression studies. The next step is to consider both the results of the ongoing Phase 2/3 study data review and feedback from clinical advisors to determine any potential clinical development for ELND005. Should TTIL decide to pursue further ELND005 clinical development, regulatory agencies will be approached to share the study data and set a future clinical development plan.

DIABETES DRUG CANDIDATE – TT401

Over the last year, there have been many developments in the market for GLP-1 therapies targeting type 2 diabetes and obesity. These include the FDA approval of a once-weekly GLP-1 product for type 2 diabetes from Lilly and the FDA approval of a high dose GLP-1 product for chronic weight management. These market entrants highlight the need for GLP-1 products in type 2 diabetes and their expansion into new markets such as obesity.

Lilly, our development partner for TT401, has been performing a Phase 2 study of TT401 in type 2 diabetes individuals. The randomized, double-blind, placebo-controlled study includes six study arms, four doses of TT-401, a placebo arm and a once-weekly exenatide arm. The study has enrolled 420 patients. The main efficacy outcome measures will be the change in HbA1c (a measure of blood-glucose levels) at week 12 and 24 and change in body weight over the course of the study.

Transition, through its development subsidiary Waratah, has financially supported the Phase 2 study by contributing US$14 million during calendar 2014. Any future development and commercialization costs relating to TT401 will be borne by Lilly. The data from this study is expected to be announced either in late calendar Q4 2015 or Q1 2016.

LETTER TO SHAREHOLDERS

DRUG CANDIDATE TT701 – ANDROGEN DEFICIENCY

In May 2015, TTIL acquired development and commercialization rights to a drug candidate (TT701) from Lilly. TT701 is a selective androgen receptor modulator (SARM) that has been shown in a previous Phase 2 study performed by Lilly to significantly increase lean body mass and a measurement of muscle strength in male subjects. This completed 12-week, Phase 2 study of 350 subjects also demonstrated additional beneficial effects, including significant fat mass reduction with no significant change in prostate specific antigen (PSA) levels.

Androgens are a group of hormones that play a role in male traits and reproductive activity. Present in both males and females, the principle androgens are testosterone and androstenedione. Men over the age of 30 experience a modest and gradual drop in sex hormone levels. However, androgen deficiency is when the body has lower levels of male sex hormones, particularly testosterone, than is needed for health. This deficiency can be caused by a number of conditions leading to reduced libido, reduced lean body mass, increased fat mass and other undesired outcomes.

TTIL is actively engaged with potential partners to collaborate on the development of TT701 for specific medical populations. These target medical populations are individuals who can benefit from androgen therapy, but their background condition would preclude the use of testosterone replacement therapy. The markets that TTIL is targeting for the TT-701 drug candidate do not have a product approved for androgen replacement therapy.

LOOKING AHEAD

The coming year promises to be important in charting the future of Transition and its subsidiaries. In the near future, TTIL will complete its ELND005 data review and external clinical advisory consultations. These activities are expected to inform any future clinical advancement of ELND005. For TT401, the Phase 2 study has completed enrolment of 420 type 2 diabetes individuals. Data from the study will be instructive to define the potential commercial positioning of TT401 in the GLP-1 market. The newly in-licensed TT701 is being prepared for a Phase 2 study to commence in calendar 2015. TTIL is working closely with partners to advance TT701 in the best-suited patient population suffering from androgen deficiency.

In parallel with the above mentioned activities, the Company will continue to leverage its development team by growing its pipeline of drug candidates in the coming year. Our strategy is focused on finding opportunities where we can create value by taking calculated risks with potential new candidates.

I would like to take this opportunity to thank our employees and our Board of Directors and scientific advisors for their contribution. I also would like to thank the patients in our completed, ongoing and future clinical trials. We look forward to providing updates on our progress over the next year and thank our shareholders for their commitment and continued support.

Tony Cruz
Chairman and Chief Executive Officer
Transition Therapeutics Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is a discussion and analysis of the operating results and financial position of Transition Therapeutics Inc. for the year ended June 30, 2015. This document should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). This Management's Discussion and Analysis ("MD&A") provides a review of the performance of the Company for the year ended June 30, 2015 as compared to the year ended June 30, 2014. This review was performed by management with information available as of September 14, 2015.

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 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.

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.

During the fiscal year ended June 30, 2015 and up to the date of this MD&A, the Company announced the following:

ELND005:

- ***June 24, 2015 – Transition announced results of Clinical Study of ELND005 in Agitation and Aggression in Patients with Alzheimer's Disease.*** The Phase 2/3 clinical study of neuropsychiatric drug candidate ELND005 did not meet its primary efficacy endpoint. 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;
- ***March 26, 2015 – Transition announced results from two phase 1 clinical studies of neuropsychiatric drug candidate ELND005. These studies, an absorption-metabolism-excretion ("AME") study and a renal clearance study, are specialized clinical pharmacology trials that are required by the United States Food and Drug Administration ("FDA") for the approval of most drugs in development***;
- ***November 24, 2014 – Transition announced results from a thorough QT (tQT) study in which no QT effects were observed at supra-therapeutic single doses of neuropsychiatric drug candidate, ELND005.*** A tQT study is a specialized clinical trial required by the FDA for the approval of most drugs in development. From a safety perspective, drugs that have no QT prolongation effects are particularly desirable for administration to an elderly Alzheimer's disease AD population;
- ***November 20, 2014 – Transition announced the results of a clinical study of neuropsychiatric drug candidate ELND005 in young adults with Down syndrome.*** 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. At the doses evaluated, ELND005 was determined to have an acceptable safety and tolerability profile and there were no serious adverse events reported;

- ***November 4, 2014 – Transition announced findings from a Phase 2 study of neuropsychiatric drug candidate, ELND005, as an adjunctive maintenance treatment for bipolar disorder type I patients (BPD).*** TTIL terminated the bipolar disorder Phase 2 study on April 7, 2014 for business reasons. TTIL has completed a review of the data from this bipolar disorder Phase 2 study. Overall, ELND005 had an acceptable safety and tolerability profile in the study, and showed numerical differences in the number of mood event recurrences favoring ELND005.

TT401:

- ***In February 2015, development partner Lilly informed Transition that 420 type 2 diabetic subjects have been enrolled in the current Phase 2 study thereby completing the enrollment phase of the study.*** The randomized, double-blind, placebo-controlled study includes six study arms, four doses of TT401, a placebo arm and a once-weekly exenatide arm. The main efficacy outcome measures are the change in HbA1c, a measure of blood-glucose levels, at week 12 and 24 and change in body weight over the course of the study;
- ***Transition has paid all three installment payments totaling US$14 million to diabetes drug candidate development partner Lilly.*** Transition has no further financial obligations for the development and commercialization of TT401. In December, 2014, Lilly informed Transition that the 70% enrollment milestone had been achieved.

Corporate Developments:

- ***June 16, 2015 – announced that Carl Damiani has been appointed as President and Chief Operating Officer of Transition;***
- ***May 16, 2015 – Transition announced its wholly-owned subsidiary, TTIL has exclusively licensed worldwide rights to a novel small molecule drug candidate ("TT701") from Eli Lilly and Company.*** Under the terms of the agreement, TTIL has acquired rights to develop and commercialize TT701. Lilly will receive upfront consideration of up to US$1 million. In addition, Lilly is eligible to receive up to US$100 million in commercial milestones and a mid-single digit royalty on sales of TT701 products should such products be successfully commercialized. 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. This completed 12-week, Phase 2 study of 350 subjects also demonstrated additional beneficial effects, including significant fat mass reduction with no significant change in prostate specific antigen (PSA) levels. TTIL is evaluating multiple development paths for TT701, including as a new therapeutic option for patients with androgen deficiency. TTIL is engaged with potential collaborators to rapidly commence a Phase 2 clinical study;
- ***February 18, 2015 – Transition announced the closing of a public offering of US$23 million of common shares equivalent to 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.*** Cowen and Company, LLC was the sole book-running manager and Canaccord Genuity Inc., H.C. Wainwright & Co., LLC, and LifeSci Capital LLC were the co-managers for the offering.

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; the first installment of US$6 million was paid during the three month period ended September 30, 2014 when the study achieved 20% patient enrollment. The remaining two installments totaling US$8 million were paid during the three month period ended December 31, 2014 when the study achieved both the 50% and 70% patient enrollment milestones. 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 on sales of TT401 products and a low single digit royalty on sales of related compounds.

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 US. 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

On November 27, 2012, the first patient was enrolled in a Phase 2 clinical trial of ELND005 for the treatment of agitation/aggression in patients with mild to severe Alzheimer's disease. The objectives of the study are to evaluate the efficacy, safety and tolerability of ELND005 over 12 weeks of treatment in patients with mild to severe AD, who are experiencing at least moderate levels of agitation/aggression. Enrollment of this clinical study (AG201) known as the "Harmony AD" study (www.harmonyadstudy.com) 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 endpoints in the Phase 2/3 clinical study of ELND005 in agitation and aggression in patients with Alzheimer's Disease. 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.

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. The Company is performing a thorough review of the data from the completed study in agitation and aggression. An external clinical advisory board is working with the Company to evaluate the data and consider potential future clinical development paths for ELND005.

(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 the ELND005 drug candidate.

During the years ended June 30, 2015 and 2014, the Company incurred direct research and development costs for this program as follows.

ELND005 Program[1]	Fiscal 2015 $	Fiscal 2014 $
Pre-clinical studies	-	-
Clinical studies	20,154,069	8,473,306
Manufacturing	796,511	270,241
Other direct research	2,356,831	955,608
TOTAL	23,307,411	9,699,155

[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.

Prior to the February, 2014 acquisition, Transition was not required to fund the development or commercialization of ELND005 and accordingly, development costs were nil during the first eight months of fiscal 2014.

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 is expected to enroll up to 375 type 2 diabetes subjects and will be performed by Transition's development partner Lilly. The objectives of the study will be 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.

Transition has made three separate installments to Lilly during the Phase 2 clinical study totaling US$14 million to Lilly. The first installment of US$6 million was paid in September 2014 when the study achieved 20% patient enrollment. The remaining two installments totaling US$8 million were paid during the three month period ended December 31, 2014 when the study achieved both the 50% and 70% patient enrollment milestones. There are no additional funding obligations related to this clinical study.

Expenditures for the TT401 Program

During the years ended June 30, 2015 and 2014, the Company incurred direct research and development costs for this program as follows:

TT401 Program[(1)]	**Fiscal 2015 $**	**Fiscal 2014 $**
Pre-clinical studies	-	7,488
Clinical studies	-	87,379
Manufacturing	-	(37,419)
Other direct research	-	37,803
Development payments to Lilly	15,491,600	-
TOTAL	15,491,600	95,251

(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.

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 they prepare to move the drug candidate into a Phase 2 clinical trial. TTIL has been actively working with potential partners to collaborate on the clinical development of TT701 and it is expected that a Phase 2 study of TT701 will commence before the end of calendar 2015.

Expenditures for the TT701 Program

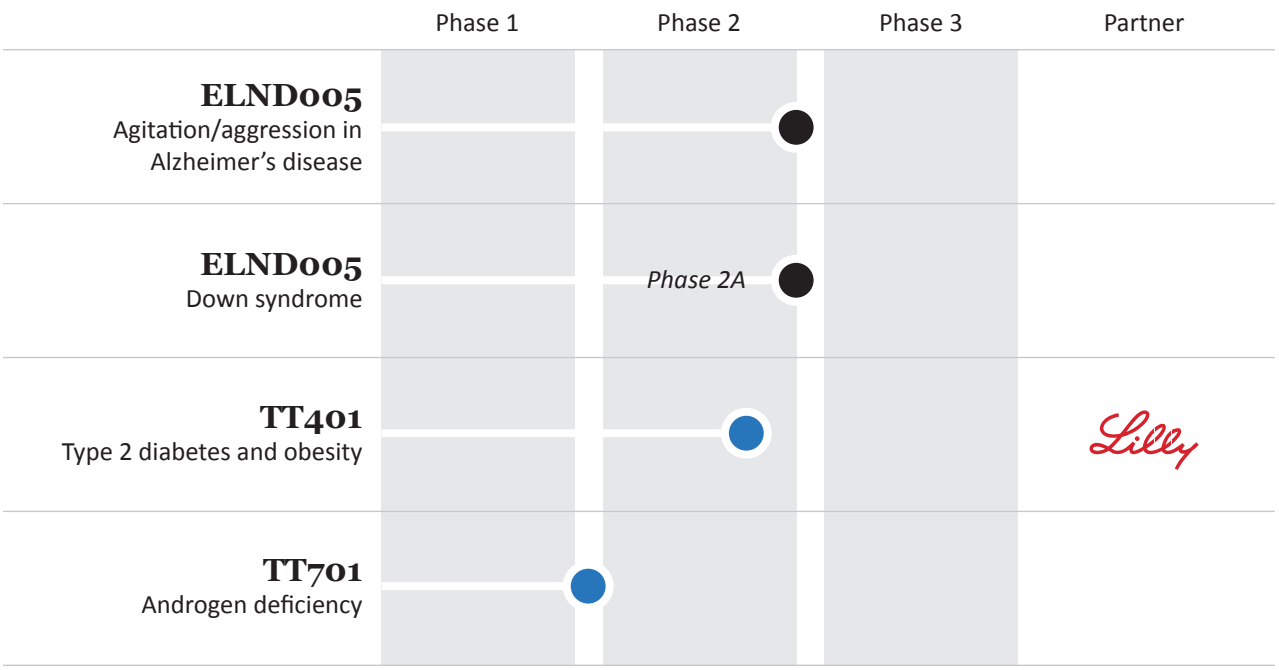
During the years ended June 30, 2015 and 2014, the Company incurred direct research and development costs for this program as follows:

TT701 Program[1]	Fiscal 2015 $	Fiscal 2014 $
Pre-clinical studies	-	-
Clinical studies	-	-
Manufacturing	253,729	-
Other direct research	41,034	-
TOTAL	294,763	-

[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:



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

During the year ended June 30, 2015, the Company recorded a net loss of $51,339,528 ($1.41 loss per common share) compared to a net loss of $21,782,255 ($0.72 loss per common share) for the year ended June 30, 2014.

During the fiscal year ended June 30, 2015, the Company reported an increase in net loss of $29,557,273 compared to the fiscal year ending June 30, 2014. The increase in net loss is due to the significant increase in research and development expenses resulting from the reacquisition of the rights to develop the ELND005 drug candidate, as well as the US$14 million milestone payments made to Lilly and increased general and administration expenses. The increase in net loss has been partially offset by the settlement of a pre-existing relationship recognized in connection with the re-acquisition of the ELND005 asset in February 2014, increased foreign exchange gains and the change in fair value of contingent consideration payable.

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 $2,492,010, resulting in net cash proceeds of $26,069,390.

At June 30, 2015, the Company has $40,510,758 in cash and a working capital of $32,026,606.

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.

SELECTED ANNUAL INFORMATION

The following table is a summary of selected financial information from the audited consolidated financial statements of the Company for each of the three most recently completed financial years:

	June 30, 2015 $	June 30, 2014 $	June 30, 2013 $
Revenue	-	-	17,933,500
Net income (loss) [1]	(51,339,528)	(21,782,255)	23,297
Basic and diluted net income (loss) per common share	(1.41)	(0.72)	-
Total assets	49,649,085	68,907,236	37,807,955
Total long-term liabilities [2]	3,503,344	3,849,718	1,457,821
Cash dividends declared per share	-	-	-

[1] Net income (loss) before discontinued operations and extraordinary items was equivalent to the net income (loss) for such periods.
[2] Total long-term liabilities represents contingent consideration payable as set forth in the Company's audited consolidated financial statements for the year ended June 30, 2015. For the years ended June 30, 2014 and 2013, total long-term liabilities also includes leasehold inducement.

ANNUAL RESULTS – YEAR ENDED JUNE 30, 2015 COMPARED TO YEAR ENDED JUNE 30, 2014

RESULTS OF OPERATIONS

Research and Development

Research and development expenses increased $31,842,318 or 183% from $17,367,385 for the fiscal year ended June 30, 2014 to $49,209,703 for the fiscal year ended June 30, 2015.

The increases in research and development expenses are primarily due to increases in development costs related to ELND005. The increases are also attributed to increases in development costs associated with diabetes drug candidate TT401 as during fiscal 2015 the Company paid Lilly an aggregate of US$14 million upon the achievement of all three patient enrollment milestones. The increase in research and development costs have been partially offset by decreases in clinical development costs associated with the costs related to the TT601 program.

The Company anticipates that research and development expenses will decrease significantly during fiscal 2016 as the Company discontinues the safety extension trial AG251 in agitation and aggression in Alzheimer's disease and has no further funding obligations to Lilly for the ongoing Phase 2 clinical study of diabetes drug candidate TT401. The decrease will be offset by incurring costs relating to the development of TT701, a novel small molecule drug candidate licensed from Lilly.

General and Administrative

General and administrative expenses increased by $787,698 or 17% from $4,726,574 for the fiscal year ended June 30, 2014 to $5,514,272 for the fiscal year ended June 30, 2015.

The increases in general and administrative expenses are primarily due to increases in compensation and overhead costs relating to the Company's premises in San Mateo, California.

The Company anticipates general and administrative expenses will decrease during fiscal 2016 as all activities based out of the San Mateo, California location will be transferred to head office, which will result in a reduction in general and administrative expenses.

Settlement of a Pre-existing Relationship

During the comparative year ended June 30, 2014, the Company recognized an expense of $3,096,186 as a settlement of a pre-existing relationship relating to the collaboration agreement with Elan. The Company did not recognize a similar expense during the year ended June 30, 2015.

Change in Fair Value of Contingent Consideration Payable

Contingent consideration is required to be measured as a financial liability at fair value and re-measured at each reporting date. Management revisited the assumptions used in the valuation of the contingent consideration payable and accordingly, the Company has recognized an increase in the fair value of contingent consideration payable of $65,787 during the fiscal year ended June 30, 2015.

During the comparative year ended June 30, 2014, the Company recognized a change in fair value of contingent consideration payable of $2,911,218.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 June 30, 2015.

	First Quarter $	Second Quarter $	Third Quarter $	Fourth Quarter $	Total $
2015					
Revenue	-	-	-	-	-
Net income (loss)[1]	(15,695,324)	(16,910,139)	(4,748,096)	(13,985,969)	(51,339,528)
Basic and diluted net income (loss) per common share	(0.45)	(0.48)	(0.13)	(0.38)	(1.41)
2014					
Revenue	-	-	-	-	-
Net income (loss)[1]	(2,331,186)	(1,253,772)	(5,067,292)	(13,130,005)	(21,782,255)
Basic and diluted net income (loss) per common share	(0.08)	(0.04)	(0.17)	(0.43)	(0.72)

[1] Net income (loss) before discontinued operations was equivalent to the net income (loss) for such periods. The net income (loss) represented in the chart excludes any amounts for items that may be subsequently reclassified as net income such as cumulative translation adjustment.

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 and losses.

FOURTH QUARTER RESULTS

The following table is a summary of selected information for the three month periods ended June 30, 2015 and June 30, 2014:

	2015 $	2014 $
Revenue – Licensing fees	-	-
Research and development, net	12,381,651	10,464,484
General and administrative	1,736,460	1,673,616
Impairment of intangible assets	-	-
Interest income	49,522	56,250
Net loss	13,985,969	13,130,005

Review of Operations

For the three month period ended June 30, 2015, the Company's net loss increased by $855,964 or 7% to $13,985,969 from $13,130,005 for the same period in fiscal 2014.

Research and development expenses increased by $1,917,167 or 18% to $12,381,651 compared to $10,464,484 for the same period in fiscal 2014. This increase was primarily due to an increase in clinical development costs related to

the re-acquired rights to the drug candidate ELND005 and the development of the recently in-license TT701, which has been partially offset by decreases in clinical development costs associated with pre-clinical research on TT601.

General and administrative expenses increased by $62,844 or 4% to $1,736,460 from $1,673,616 for the same period in fiscal 2014. This increase was primarily due to increases in compensation and overhead costs relating to the Company's premises in San Mateo, California.

Due to changes in assumptions relating to the development of ELND005, the Company has recognized a change in fair value of contingent consideration payable of $681,911 during the three month period ended June 30, 2015. During the comparative period in fiscal 2014, the company recognized a change in fair value of contingent consideration payable of $129,311 due to the passage of time.

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. The Company is performing a thorough review of the data from the completed study in agitation and aggression. An external clinical advisory board is working with the Company to evaluate the data and consider potential future clinical development paths for ELND005.

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 $1,428,951. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would reduce the contingent consideration payable by $1,858,858;

(b) The probability 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 $1,080,299. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by $1,538,400.

Management revisited the assumptions used in the valuation of the contingent consideration payable and accordingly, the Company has recognized a change in fair value of contingent consideration payable of $65,787 during the fiscal year ended June 30, 2015.

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.

Settlement of a Pre-Existing Relationship

The Company has determined that the transactions entered into with Perrigo on February 28, 2014 have resulted in the re-acquisition of the rights to the development and commercialization of ELND005 previously licensed to Elan which in accordance with IFRS must be accounted for as a settlement of a pre-existing relationship (the collaboration agreement between Waratah and Elan). Accordingly, the company expensed $3,096,186 in fiscal 2014 as the cost related to the settlement of the pre-existing relationship.

ACCOUNTING CHANGES

The following accounting policies have been adopted effective July 1, 2014:

IAS 36 – Impairment of Assets

IAS 36 has been amended to include limited scope amendments to the impairment disclosures. The amendments are effective for annual periods beginning on or after January 1, 2014. The adoption of IAS 36 did not significantly impact the Company's consolidated financial statements;

IFRS 2 – Share Based Payments

IFRS 2 has been amended to clarify the definition of vesting conditions. The amendments are effective for annual periods beginning on or after July 1, 2014. The adoption of IFRS 2 did not significantly impact the Company's consolidated financial statements.

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, 2017 however the IASB has proposed to defer the date of adoption to 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.

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.

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Company's CEO and CFO, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures as of June 30, 2015 as required by Canadian securities legislation. Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are designed to ensure that the information required to be disclosed by the Company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of June 30, 2015, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013) ("COSO") in the updated Internal Control-Integrated Framework. The Company's management, including the CEO and CFO, concluded that, as of June 30, 2015, the Company's internal control over financial reporting was effective based on the criteria in Internal Control — Integrated Framework issued by COSO.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report in the Company's audited consolidated financial statements for the year ended June 30, 2015.

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 June 30, 2015 of $222,454,699. 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 $40,510,758 at June 30, 2015 as compared to cash and short term investments of $60,271,566 at June 30, 2014, resulting in a decrease of $19,760,808. The Company's working capital position at June 30, 2015 decreased $22,751,265 from $54,777,871 at June 30, 2014 to $32,026,606, at June 30, 2015.

The decrease in the Company's cash and short term investments as well as the decrease in working capital are primarily due to the expenditures incurred during the fiscal year ended June 30, 2015 which included three milestone payments totaling US$14 million paid to Lilly upon the achievement of all three patient enrollment milestones for the TT401 Phase 2 diabetes study. The decrease is offset by the February 18, 2015 public offering of 3,538,461 common shares which resulted in net proceeds of $26,069,390.

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 for 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, short term investments, other receivables, accounts payable and accrued liabilities, 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	238,179	343,165	307,453	-	888,797
Clinical and toxicity study agreements	3,545,412	-	-	-	3,545,412
Manufacturing agreements	214,857	-	-	-	214,857
Contingent consideration payable	-	2,847,759	-	58,028,760	60,876,519
Other	327,218	-	-	-	327,218
TOTAL	**4,325,666**	**3,190,924**	**307,453**	**58,028,760**	**65,852,803**

Contractual obligations denominated in US dollars have been translated to Canadian dollars using the exchange rate at June 30, 2015.

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 in one of more offerings until July 19, 2016.

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

RELATED PARTY TRANSACTIONS

During fiscal 2015, the Company paid legal fees to a law firm where the Company's Secretary is a partner and to a corporation controlled by the Company's Secretary. Total fees and disbursements charged to the Company by these companies was $45,346 for fiscal 2015 and $49,000 for fiscal 2014 and are included in general and administrative expenses. The balance owing at June 30, 2015 and 2014 is nil.

Members of the Company's Board of Directors, management and employees participated in both the August, 2013 and June, 2014 private placements.

These transactions occurred in the normal cause of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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 September 14, 2015 the Company has 38,878,879 common shares outstanding.

Stock Options

As at September 14, 2015 the Company has 2,408,381 stock options outstanding with exercise prices ranging from $2.09 to $10.19 and various expiry dates extending to June 14, 2025. At September 14, 2015, on an if-converted basis, these stock options would result in the issuance of 2,408,381 common shares in the capital of the Company at an aggregate exercise price of $11,430,633.

Warrants

As at September 14, 2015, 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

Investing in the Company's securities involves a high degree of risk. Before making an investment decision, individuals should carefully consider the following risk factors, in addition to the other information provided in this MD&A and the Company's other disclosure documents filed on www.sedar.com.

The Company will require significant additional financing and it may not have access to sufficient capital.

The Company anticipates that it will need additional financing in the future to fund its ongoing research and development programs and for general corporate requirements. The Company may choose to seek additional funding through public or private offerings, corporate collaborations or partnership arrangements. The amount of financing

required will depend on many factors including the financial requirements of the Company to fund its research and clinical trials, and the ability of the Company to secure partnerships and achieve partnership milestones as well as to fund other working capital requirements. The Company's ability to access the capital markets or to enlist partners is mainly dependent on the progress of its research and development and regulatory approval of its products. There is no assurance that additional funding will be available on acceptable terms, if at all.

The Company has a history of losses, and it has not generated any product revenue to date. It may never achieve or maintain profitability.

Since inception, the Company has incurred significant losses each year and expects to incur significant operating losses as the Company continues product research and development and clinical trials. There is no assurance that the Company will ever successfully commercialize or achieve revenues from sales of its therapeutic products if they are successfully developed or that profitability will ever be achieved or maintained. Even if profitability is achieved, the Company may not be able to sustain or increase profitability.

The Company is an early stage development company in an uncertain industry.

The Company is at an early stage of development. Preclinical and clinical trial work must be completed before our products could be ready for use within the markets we have identified. We may fail to develop any products, to obtain regulatory approvals, to enter clinical trials or to commercialize any products. The Company does not know whether any of our potential product development efforts will prove to be effective, meet applicable regulatory standards, obtain the requisite regulatory approvals or be capable of being manufactured at a reasonable cost. If the Company's products are approved for sale, there can be no assurance that the products will gain market acceptance among consumers, physicians, patients and others in the medical community. A failure to gain market acceptance may adversely affect the revenues of the Company.

The Company is subject to a strict regulatory environment.

None of the Company's product candidates have received regulatory approval for commercial sale.

Numerous statutes and regulations govern human testing and the manufacture and sale of human therapeutic products in Canada, the United States and other countries where the Company intends to market its products. Such legislation and regulation bears upon, among other things, the approval of protocols and human testing, the approval of manufacturing facilities, testing procedures and controlled research, review and approval of manufacturing, preclinical and clinical data prior to marketing approval including adherence to Good Manufacturing Practices ("**GMP**") during production and storage as well as regulation of marketing activities including advertising and labelling.

The completion of the clinical testing of our product candidates and the obtaining of required approvals are expected to take years and require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period of time, if at all. Furthermore, clinical trials may be delayed or suspended at any time by the Company or by regulatory authorities if it is determined at any time that patients may be or are being exposed to unacceptable health risks, including the risk of death, or that compounds are not manufactured under acceptable GMP conditions or with acceptable quality. Any failure or delay in obtaining regulatory approvals would adversely affect the Company's ability to utilize its technology thereby adversely affecting operations. No assurance can be given that the Company's product candidates or lead compounds will prove to be safe and effective in clinical trials or that they will receive the requisite protocol approval or regulatory approval. Furthermore, no assurance can be given that current regulations relating to regulatory approval will not change or become more stringent. There are no assurances the Company can scale-up, formulate or manufacture any compound in sufficient quantities with

acceptable specifications for the regulatory agencies to grant approval or not require additional changes or additional trials be performed. The agencies may also require additional trials be run in order to provide additional information regarding the safety, efficacy or equivalency of any compound for which the Company seeks regulatory approval. Similar restrictions are imposed in foreign markets other than the United States and Canada. Investors should be aware of the risks, problems, delays, expenses and difficulties which may be encountered by the Company in light of the extensive regulatory environment in which the Company's business operates.

Even if a product candidate is approved by the FDA or any other regulatory authority, the Company may not obtain approval for an indication whose market is large enough to recoup its investment in that product candidate. The Company may never obtain the required regulatory approvals for any of its product candidates.

The Company is faced with uncertainties related to its research.

The Company's research programs are based on scientific hypotheses and experimental approaches that may not lead to desired results. In addition, the timeframe for obtaining proof of principle and other results may be considerably longer than originally anticipated, or may not be possible given time, resource, financial, strategic and collaborator scientific constraints. Success in one stage of testing is not necessarily an indication that the particular program will succeed in later stages of testing and development. It is not possible to predict, based upon studies in in-vitro models and in animals, whether any of the compounds made for these programs will prove to be safe, effective, and suitable for human use. Each compound will require additional research and development, scale-up, formulation and extensive clinical testing in humans. Decisions regarding future development activities may be based on results from completed studies or interim results from on-going studies or projections derived from interim or administrative analyses of studies not yet completed. Development of these compounds will require investigations into the mechanism of action of the molecules as these are not fully understood. Unsatisfactory results obtained from a particular study relating to a program may cause the Company to abandon its commitment to that program or to the lead compound or product candidate being tested. The discovery of unexpected toxicities, lack of sufficient efficacy, poor physiochemical properties, unacceptable ADME (absorption, distribution, metabolism and excretion) and DMPK (drug metabolism and pharmacokinetics), pharmacology, inability to increase scale of manufacture, market attractiveness, regulatory hurdles, competition, as well as other factors, may make the Company's targets, lead compounds or product candidates unattractive or unsuitable for human use, and the Company may abandon its commitment to that program, target, lead compound or product candidate. In addition, preliminary results seen in animal and/or limited human testing may not be substantiated in larger controlled clinical trials.

If difficulties are encountered enrolling patients in the Company's clinical trials, the Company's trials could be delayed or otherwise adversely affected.

Clinical trials for the Company's product candidates require that the Company identify and enrol a large number of patients with the disorder under investigation. The Company may not be able to enrol a sufficient number of patients to complete its clinical trials in a timely manner. Patient enrolment is a function of many factors including, but not limited to, design of the study protocol, size of the patient population, eligibility criteria for the study, the perceived risks and benefits of the therapy under study, the patient referral practices of physicians and the availability of clinical trial sites. If the Company has difficulty enrolling a sufficient number of patients to conduct the Company's clinical trials as planned, it may need to delay or terminate ongoing clinical trials.

Even if regulatory approvals are obtained for the Company's product candidates, the Company will be subject to ongoing government regulation.

Even if regulatory authorities approve any of the Company's human therapeutic product candidates, the manufacture,

marketing and sale of such products will be subject to strict and ongoing regulation. Compliance with such regulation may be expensive and consume substantial financial and management resources. If the Company, or any future marketing collaborators or contract manufacturers, fail to comply with applicable regulatory requirements, it may be subject to sanctions including fines, product recalls or seizures, injunctions, total or partial suspension of production, civil penalties, withdrawal of regulatory approvals and criminal prosecution. Any of these sanctions could delay or prevent the promotion, marketing or sale of the Company's products.

The Company may not achieve its projected development goals in the time frames announced and expected.

The Company sets goals for and makes public statements regarding the timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated regulatory submission and approval dates and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in the Company's clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialize its products.

There can be no assurance that the Company's clinical trials will be completed, that the Company will make regulatory submissions or receive regulatory approvals as planned. If the Company fails to achieve one or more of these milestones as planned, the price of the Common Shares would likely decline.

If the Company fails to obtain acceptable prices or adequate reimbursement for its human therapeutic products, its ability to generate revenues will be diminished.

The Company's ability to successfully commercialize its human therapeutic products will depend significantly on its ability to obtain acceptable prices and the availability of reimbursement to the patient from third-party payers, such as government and private insurance plans. While the Company has not commenced discussions with any such parties, these third-party payers frequently require companies to provide predetermined discounts from list prices, and they are increasingly challenging the prices charged for pharmaceuticals and other medical products. The Company's human therapeutic products may not be considered cost-effective, and reimbursement to the patient may not be available or sufficient to allow the Company to sell its products on a competitive basis. The Company may not be able to negotiate favourable reimbursement rates for its human therapeutic products.

In addition, the continuing efforts of third-party payers to contain or reduce the costs of healthcare through various means may limit the Company's commercial opportunity and reduce any associated revenue and profits. The Company expects proposals to implement similar government control to continue. In addition, increasing emphasis on managed care will continue to put pressure on the pricing of pharmaceutical and biopharmaceutical products. Cost control initiatives could decrease the price that the Company or any current or potential collaborators could receive for any of its human therapeutic products and could adversely affect its profitability. In addition, in Canada and in many other countries, pricing and/or profitability of some or all prescription pharmaceuticals and biopharmaceuticals are subject to government control.

If the Company fails to obtain acceptable prices or an adequate level of reimbursement for its products, the sales of its products would be adversely affected or there may be no commercially viable market for its products.

The Company may not obtain adequate protection for its products through its intellectual property.

The Company's success depends, in large part, on its ability to protect its competitive position through patents, trade secrets, trademarks and other intellectual property rights. The patent positions of pharmaceutical and biopharmaceutical firms, including the Company, are uncertain and involve complex questions of law and fact for which important legal

issues remain unresolved. The patents issued or to be issued to the Company may not provide the Company with any competitive advantage. The Company's patents may be challenged by third parties in patent litigation, which is becoming widespread in the biopharmaceutical industry. In addition, it is possible that third parties with products that are very similar to the Company's will circumvent its patents by means of alternate designs or processes. The Company may have to rely on method of use protection for its compounds in development and any resulting products, which may not confer the same protection as compounds per se. The Company may be required to disclaim part of the term of certain patents. There may be prior applications of which the Company is not aware that may affect the validity or enforceability of a patent claim. There also may be prior applications which are not viewed by the Company as affecting the validity or enforceability of a claim, but which may, nonetheless ultimately be found to affect the validity or enforceability of a claim. No assurance can be given that the Company's patents would, if challenged, be held by a court to be valid or enforceable or that a competitor's technology or product would be found by a court to infringe the Company's patents. Applications for patents and trademarks in Canada, the United States and in foreign markets have been filed and are being actively pursued by the Company. Pending patent applications may not result in the issuance of patents, and the Company may not develop additional proprietary products which are patentable.

Patent applications relating to or affecting the Company's business have been filed by a number of pharmaceutical and biopharmaceutical companies and academic institutions. A number of the technologies in these applications or patents may conflict with the Company's technologies, patents or patent applications, and such conflict could reduce the scope of patent protection which the Company could otherwise obtain. The Company could become involved in interference proceedings in the United States in connection with one or more of its patents or patent applications to determine priority of invention. The Company's granted patents could also be challenged and revoked in opposition proceedings in certain countries outside the United States.

In addition to patents, the Company relies on trade secrets and proprietary know-how to protect its intellectual property. The Company generally requires its employees, consultants, outside scientific collaborators and sponsored researchers and other advisors to enter into confidentiality agreements. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with the Company is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of the Company's employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is the Company's exclusive property. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of the Company's proprietary information. In addition, it is possible that third parties could independently develop proprietary information and techniques substantially similar to those of the Company or otherwise gain access to the Company's trade secrets.

The Company currently has the right to use certain technology under license agreements with third parties. The Company's failure to comply with the requirements of material license agreements could result in the termination of such agreements, which could cause the Company to terminate the related development program and cause a complete loss of its investment in that program.

As a result of the foregoing factors, the Company may not be able to rely on its intellectual property to protect its products in the marketplace.

The Company may infringe the intellectual property rights of others.

The Company's commercial success depends significantly on its ability to operate without infringing the patents and other intellectual property rights of third parties. There could be issued patents of which the Company is not aware that its products infringe or patents, that the Company believes it does not infringe, but that it may ultimately be

found to infringe. Moreover, patent applications are in some cases maintained in secrecy until patents are issued. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. Because patents can take many years to issue, there may be currently pending applications of which the Company is unaware that may later result in issued patents that its products infringe.

The biopharmaceutical industry has produced a proliferation of patents, and it is not always clear to industry participants, including the Company, which patents cover various types of products. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. The Company is aware of, and has reviewed, third party patents relating to the treatment of Alzheimer's disease, diabetes and other relevant indication areas. In the event of infringement or violation of another party's patent, the Company may not be able to enter into licensing arrangements or make other arrangements at a reasonable cost. Any inability to secure licenses or alternative technology could result in delays in the introduction of the Company's products or lead to prohibition of the manufacture or sale of the products.

Patent litigation is costly and time consuming and may subject the Company to liabilities.

The Company's involvement in any patent litigation, interference, opposition or other administrative proceedings will likely cause the Company to incur substantial expenses, and the efforts of its technical and management personnel will be significantly diverted. In addition, an adverse determination in litigation could subject the Company to significant liabilities.

The Company operates in a fiercely competitive business environment.

The biopharmaceutical industry is highly competitive. Competition comes from healthcare companies, pharmaceutical companies, large and small biotech companies, specialty pharmaceutical companies, universities, government agencies and other public and private companies. Research and development by others may render the Company's technology or products non-competitive or obsolete or may result in the production of treatments or cures superior to any therapy the Company is developing or will develop. In addition, failure, unacceptable toxicity, lack of sales or disappointing sales or other issues regarding competitors' products or processes could have a material adverse effect on the Company's product candidates, including its clinical candidates or its lead compounds.

The market price of the Company's Common Shares may experience a high level of volatility due to factors such as the volatility in the market for biotechnology stocks generally, and the short-term effect of a number of possible events.

The Company is a public growth company in the biotechnology sector. As frequently occurs among these companies, the market price for the Company's Common Shares may experience a high level of volatility. Numerous factors, including many over which the Company has no control, may have a significant impact on the market price of Common Shares including, among other things, (i) clinical and regulatory developments regarding the Company's products and product candidates and those of its competitors, (ii) arrangements or strategic partnerships by the Company, (iii) other announcements by the Company or its competitors regarding technological, product development, sales or other matters, (iv) patent or other intellectual property achievements or adverse developments, (v) arrivals or departures of key personnel; (vi) government regulatory action affecting the Company's product candidates in the United States, Canada and foreign countries, (vii) actual or anticipated fluctuations in the Company's revenues or expenses, (viii) general market conditions and fluctuations for the emerging growth and biopharmaceutical market sectors, (ix) reports of securities analysts regarding the expected performance of the Company, and (x) events related to threatened, new or existing litigation. Listing on NASDAQ and the TSX may increase share price volatility due to various factors including,

(i) different ability to buy or sell the Company's Common Shares, (ii) different market conditions in different capital markets; and (iii) different trading volume.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of Common Shares, regardless of the Company's operating performance. In addition, sales of substantial amounts of Common Shares in the public market after any offering, or the perception that those sales may occur, could cause the market price of Common Shares to decline.

Furthermore, shareholders may initiate securities class action lawsuits if the market price of the Company's stock drops significantly, which may cause the Company to incur substantial costs and could divert the time and attention of its management.

The Company is highly dependent on third parties.

The Company is or may in the future be dependent on third parties for certain raw materials, product manufacture, marketing and distribution and, like other biotechnology and pharmaceutical companies, upon medical institutions to conduct clinical testing of its potential products. Although the Company does not anticipate any difficulty in obtaining any such materials and services, no assurance can be given that the Company will be able to obtain such materials and services.

The Company is subject to intense competition for its skilled personnel, and the loss of key personnel or the inability to attract additional personnel could impair its ability to conduct its operations.

The Company is highly dependent on its management and its clinical, regulatory and scientific staff, the loss of whose services might adversely impact its ability to achieve its objectives. Recruiting and retaining qualified management and clinical, scientific and regulatory personnel is critical to the Company's success. Competition for skilled personnel is intense, and the Company's ability to attract and retain qualified personnel may be affected by such competition.

The Company's business involves the use of hazardous materials which requires the Company to comply with environmental regulation.

The Company's discovery and development processes involve the controlled use of hazardous materials. The Company is subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed the Company's resources. The Company may not be adequately insured against this type of liability. The Company may be required to incur significant costs to comply with environmental laws and regulations in the future, and its operations, business or assets may be materially adversely affected by current or future environmental laws or regulations.

Legislative actions, potential new accounting pronouncements and higher insurance costs are likely to impact the Company's future financial position or results of operations.

Compliance with changing regulations regarding corporate governance and public disclosure, notably with respect to internal controls over financial reporting, may result in additional expenses. Changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for companies such as ours, and insurance costs are increasing as a result of this uncertainty.

Future healthcare reforms may produce adverse consequences.

Healthcare reform and controls on healthcare spending may limit the price the Company can charge for any products and the amounts thereof that it can sell. In particular, in the United States, the federal government and private insurers have considered ways to change, and have changed, the manner in which healthcare services are provided. Potential approaches and changes in recent years include controls on healthcare spending and the creation of large purchasing groups. In the future, the U.S. government may institute further controls and different reimbursement schemes and limits on Medicare and Medicaid spending or reimbursement. These controls, reimbursement schemes and limits might affect the payments the Company could collect from sales of any of its products in the United States. Uncertainties regarding future health care reform and private market practices could adversely affect the Company's ability to sell any products profitably in the United States. Election of new or different political or government officials in large market countries could lead to dramatic changes in pricing, regulatory approval legislation and reimbursement which could have material impact on product approvals and commercialization.

The Company faces an unproven market for its future products.

The Company believes that there will be many different applications for products successfully derived from its technologies and that the anticipated market for products under development will continue to expand. No assurance, however, can be given that these beliefs will prove to be correct due to competition from existing or new products and the yet to be established commercial viability of the Company's products. Physicians, patients, formularies, third party payers or the medical community in general may not accept or utilize any products that the Company or its collaborative partners may develop.

The Company may be faced with future lawsuits related to secondary market liability.

Securities legislation in Canada has recently changed to make it easier for shareholders to sue. These changes could lead to frivolous law suits which could take substantial time, money, resources and attention or force the Company to settle such claims rather than seek adequate judicial remedy or dismissal of such claims.

The Company may encounter unforeseen emergency situations and information technology breaches.

Despite the implementation of security measures, any of the Company's, its collaborators' or its third party service providers' internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failure. Any resulting system failure, accident or security breach could result in a material disruption of the Company's operations. Likewise, data privacy or security breaches by employees and others with permitted access to our systems, including in some cases third-party service providers to which we may outsource certain business functions, may pose a risk that sensitive data, including intellectual property or personal information, may be exposed to unauthorized persons or to the public. While we have invested in the protection of data and information technology, there can be no assurance that our efforts will prevent service interruptions, or identify breaches in our systems, that could adversely affect our business and/or result in the loss of critical or sensitive information, which could result in financial, legal, business or reputational harm to us.

The Company's technologies may become obsolete.

The pharmaceutical industry is characterized by rapidly changing markets, technology, emerging industry standards and frequent introduction of new products. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's technologies obsolete, less competitive or less marketable.

Our product candidates may cause undesirable serious adverse events during clinical trials that could delay or prevent their regulatory authorization, approval or other permission to conduct further testing or commence commercialization.

Our product candidates in clinical development, including ELND005 can potentially cause adverse events. In 2010, together with our collaborator, Elan, we completed a Phase 2 study that evaluated three dose groups of ELND005 and a placebo group in mild to moderate Alzheimer's disease patients. The study included four treatment arms: placebo, 250mg bid, 1000mg bid and 2000mg bid. The two high dose ELND005 groups were electively discontinued in 2009 by the companies due to an observed imbalance of serious adverse events, including deaths. No causal relationship could be determined between these higher doses and the events.

Of the 351 subjects who received study drug, a total of 171 subjects received either 250mg bid or placebo, the rest were in the two discontinued high dose groups. The overall incidence of adverse events in the 250mg bid and placebo groups was 87.5% versus 91.6%; and the incidence of withdrawals due to adverse events was 10.2% versus 9.6%, respectively. The incidence of serious adverse events in the 250mg bid and placebo groups was 21.6% versus 13.3%, but the incidence of serious adverse events that were considered drug related was 2.3% and 2.4%, respectively. The total number of deaths in the study was five and four in the 1000mg bid and 2000mg bid dose groups versus one and zero in the 250mg bid and placebo groups, respectively. These deaths occurred between August 2008 and November 2009. The study's independent safety monitoring committee reviewed the final safety results and continued to conclude that a causal relationship between the deaths and drug could not be determined.

The most common adverse events in the 250mg bid group that were >5% in incidence and double the placebo rate were: falls (12.5% vs. placebo 6%), depression (11.4% vs. placebo 4.8%), and confusional state (8% vs. placebo 3.6%). Because our product candidates have been tested in relatively small patient populations and for limited durations, additional adverse events may be observed as their development progresses.

Adverse events caused by any of our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other non-U.S. regulatory authorities for any or all targeted indications. This, in turn, could prevent the commercialization of our product candidates and the generation of revenues from their sale. In addition, if our product candidates receive authorization, marketing approval or other permission and we or others later identify adverse events caused by the product, the material adverse consequences that may arise, include, but are not limited to:

- regulatory authorities may withdraw their authorization, approval, or other permission to test or market the candidate product;
- we may be required to recall the product, change the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- a product may become less competitive and product sales may decrease; or
- our reputation may suffer.

Any one or a combination of these events could prevent us from achieving or maintaining market acceptance or could substantially increase the costs and expenses of commercializing the product candidate, which in turn could delay or prevent us from generating significant revenues from the sale of such products.

The Company may be subject to costly product liability claims and may not have adequate insurance.

The conduct of clinical trials in humans involves the potential risk that the use of our product candidates will result in adverse effects. The Company currently maintains product liability insurance for their clinical trials; however, such liability insurance may not be adequate to fully cover any liabilities that arise from clinical trials of our product candidates. The Company may not have sufficient resources to pay for any liabilities resulting from a claim excluded from, or beyond the limit of, our insurance coverage.

Clinical Study Results from our product candidates may not support further clinical development.

The clinical studies performed to evaluate the safety, tolerability and efficacy of our product candidates, including ELND005, can yield study results that may or may not support further clinical development. In June 2015, the Company announced that a Phase 2/3 study of neuropsychiatric drug candidate ELND005 did not meet its primary efficacy endpoint. 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 Phase 2/3 clinical study evaluated the efficacy, safety and tolerability of ELND005 over 12 weeks of treatment in patients with mild to severe AD, who were experiencing at least moderate levels of agitation/aggression. The randomized, double-blind, placebo-controlled study enrolled 350 AD patients (175 subjects per study arm). The primary efficacy endpoint of the study was the change from baseline in the Neuropsychiatric Inventory – Clinician ("NPI-C") scale of agitation and aggression. An analysis of the full study dataset is being performed. A group of expert external clinical advisors is being consulted determine any future development of ELND005. The results of this data analysis and clinical advisory interaction may or may not support the further development of ELND005. Future development may include evaluating ELND005 as a treatment of neuropsychiatric symptoms such as agitation and aggression in Alzheimer's disease patients or potentially narrower patient populations or other disease indications. Any ELND005 development plan will be strategically focused to advance the drug candidate in the targeted patient population and therefore may differ from previously proposed development plans. Further, interactions with regulatory authorities including the FDA may or may not support proposed ELND005 clinical plans. Regulatory interactions may also result in modifications to the ELND005 development plan potentially increasing the time and cost of clinical development activities.

MANAGEMENT'S RESPONSIBILITY TO FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Transition Therapeutics Inc. have been prepared by management and have been approved by the Board of Directors. Management is responsible for the information and representation contained in these consolidated financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include some amounts that are based on best estimates and judgments.

Management, to meet its responsibility for integrity and objectivity of the data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that the financial records are reliable and form a proper basis for preparation of the consolidated financial statements, and that the assets are properly accounted for and safeguarded.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management. The Audit Committee, which consists of four directors not involved in the daily operations of the Company, reports to the Board of Directors prior to their approval of the audited consolidated financial statements for publication.

The shareholders' auditors have full access to the Audit Committee, with and without management being present, to discuss the consolidated financial statements and to report their findings from the audit process. The consolidated financial statements have been examined by the shareholders' independent auditors, PricewaterhouseCoopers LLP Chartered Professional Accountants, and their report is provided herein.

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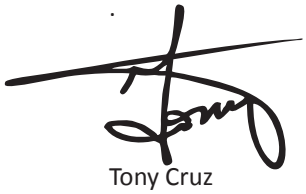

Tony Cruz
Chief Executive Officer

Nicole Rusaw
Chief Financial Officer

September 11, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Transition Therapeutics Inc.

We have completed integrated audits of Transition Therapeutics Inc. and its subsidiaries' June 30, 2015 and June 30, 2014 consolidated financial statements and their internal control over financial reporting as at June 30, 2015. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Transition Therapeutics Inc. and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2015 and June 30, 2014 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transition Therapeutics Inc. and its subsidiaries as at June 30, 2015 and June 30, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Internal Control Over Financial Reporting
We have also audited Transition Therapeutics Inc. and its subsidiaries' internal control over financial reporting as at June 30, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

INDEPENDENT AUDITOR'S REPORT

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting appearing in Management's Discussion and Analysis for the year ended June 30, 2015 in the section entitled "Internal Controls Over Financial Reporting".

Auditor's responsibility
Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the Company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, Transition Therapeutics Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as at June 30, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
September 14, 2015

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2015 and 2014

CONSOLIDATED BALANCE SHEETS

(In Canadian dollars)

	Note	June 30 2015 $	June 30, 2014 $
Assets			
Current assets			
Cash		40,510,758	57,212,004
Short term investments	5	-	3,059,562
Other receivables		265,189	220,514
Income tax and investment tax credits receivable		399,668	212,393
Prepaid expenses and deposits		259,143	36,656
		41,434,758	60,741,129
Non-current assets			
Property and equipment		191,944	158,926
Intangible assets	6	8,022,383	8,007,181
Total assets		49,649,085	68,907,236
Liabilities			
Current liabilities			
Trade and other payables	7	8,549,895	5,963,258
Contingent consideration payable	8	858,257	-
		9,408,152	5,963,258
Non-current liabilities			
Contingent consideration payable	8	3,503,344	3,838,286
Leasehold inducement		-	11,432
Total liabilities		12,911,496	9,812,976
Equity attributable to owners of the Company			
Share capital	10	233,633,493	207,374,493
Warrants	10	5,176,397	5,176,397
Contributed surplus		14,771,907	14,768,221
Share-based payment reserve	10	5,892,305	2,866,292
Accumulated other comprehensive income		(281,814)	24,028
Deficit		(222,454,699)	(171,115,171)
Total equity		36,737,589	59,094,260
Total liabilities and equity		49,649,085	68,907,236
Contingencies and commitments	15		

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 years ended June 30, 2015 and 2014
(In Canadian dollars)

	Note	2015 $	2014 $
Expenses			
Research and development	13	49,209,703	17,367,385
Selling, general and administrative expenses	13	5,514,272	4,726,574
Change in fair value of contingent consideration payable	8	65,787	(2,911,218)
Settlement of pre-existing relationship	8	-	3,096,186
Operating loss		(54,789,762)	(22,278,927)
Interest income		196,073	220,119
Foreign exchange gain		3,331,026	284,523
Loss on disposal of property and equipment		(76,865)	(7,970)
Net loss for the year		(51,339,528)	(21,782,255)
Other comprehensive income (loss) for the year			
Items that may be subsequently reclassified to net income:			
Cumulative translation adjustment		(305,842)	24,028
Comprehensive loss for the year		(51,645,370)	(21,758,227)
Basic and diluted net loss per common share	14	(1.41)	(0.72)

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended June 30, 2015 and 2014
(In Canadian dollars)

	Note	Number of common shares #	Share capital $
Balance, July 1, 2014		35,303,913	207,374,493
Net loss for the year		-	-
Cumulative translation adjustment		-	-
Issued pursuant to public offering, net	10	3,538,461	26,069,390
Share options exercised, expired or cancelled	10	36,505	189,610
Share-based payment compensation expense	10	-	-
Balance, June 30, 2015		38,878,879	233,633,493
Balance, July 1, 2013		26,930,634	165,367,524
Net loss for the year		-	-
Cumulative translation adjustment		-	-
Issued pursuant to private placements, net	10	8,076,427	40,317,595
Share options exercised, expired or cancelled	10	296,852	1,689,374
Share-based payment compensation expense	10	-	-
Balance, June 30 , 2014		35,303,913	207,374,493

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	14,768,221	2,866,292	24,028	(171,115,171)	59,094,260
-	-	-	-	(51,339,528)	(51,339,528)
-	-	-	(305,842)	-	(305,842)
-	-	-	-	-	26,069,390
-	3,686	(81,524)	-	-	111,772
-	-	3,107,537	-	-	3,107,537
5,176,397	14,771,907	5,892,305	(281,814)	(222,454,699)	36,737,589
-	14,768,002	2,352,002	-	(149,332,916)	33,154,612
-	-	-	-	(21,782,255)	(21,782,255)
-	-	-	24,028	-	24,028
5,176,397	-			-	45,493,992
-	219	(623,836)	-	-	1,065,757
-	-	1,138,126	-	-	1,138,126
5,176,397	14,768,221	2,866,292	24,028	(171,115,171)	59,094,260

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2015 and 2014
(In Canadian dollars)

	Note	2015 $	2014 $
Cash flows from (used in) operating activities			
Net loss for the year		(51,339,528)	(21,782,255)
Adjustments for:			
Change in fair value of contingent consideration payable		65,787	(2,911,218)
Settlement of a pre-existing relationship		-	3,096,186
Depreciation and amortization		652,253	946,897
Share-based payment compensation expense		3,107,537	1,138,126
Loss on disposal of property and equipment		76,865	7,970
Accrued interest		34,562	5,140
Unrealized foreign exchange gain		(1,774,842)	(491,535)
Change in working capital	16	1,373,886	5,257,439
Net cash used in operating activities		(47,803,480)	(14,733,250)
Cash flows from (used in) investing activities			
Maturity of short term investments		3,025,000	5,018,000
Purchase of short term investments		-	(3,025,000)
Purchase of intangible assets		(624,500)	-
Purchase of property and equipment		(164,270)	(34,697)
Proceeds on disposal of property and equipment		-	9,000
Net cash provided by investing activities		2,236,230	1,967,303
Cash flows from financing activities			
Net proceeds from issuance of common shares and warrants	10	26,069,390	45,493,992
Net proceeds from exercise of options		111,772	1,065,757
Net cash provided by financing activities		26,181,162	46,559,749
Foreign exchange gains on cash		2,684,842	350,265
Net increase (decrease) in cash		(16,701,246)	34,144,067
Cash, beginning of year		57,212,004	23,067,937
Cash at end of year		40,510,758	57,212,004

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 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 (IASB). 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 Note 3.

The consolidated financial statements were approved for issuance by the Board of Directors on September 11, 2015.

2.2 Consolidation

These consolidated financial statements incorporate the assets and liabilities of Transition and its wholly owned subsidiaries: Transition Therapeutics Leaseholds Inc., Waratah Pharmaceuticals Inc., Transition Therapeutics (USA) Inc. and Transition Therapeutics Ireland Limited. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated.

Subsidiaries are all those entities over which the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of comprehensive income (loss).

2.3 Foreign Currency Translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Company has determined that its foreign operations located in the United States and Ireland have a functional currency of U.S. dollars. Consequently, revenue and expenses of these foreign operations are recorded using the rate of exchange in effect at the dates of the transactions and the translation of assets and liabilities uses the rates of exchange in effect at the period-end date, with the resulting net unrealized gains and losses arising from the translation of these foreign operations included as part of the currency translation adjustment in other comprehensive income (loss).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the rate of exchange in effect at the dates of the transactions. Foreign exchange gains and losses arising from translating monetary foreign currency balances are included in foreign exchange gain.

2.4 Property and equipment

Property and equipment is recorded at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of a replaced asset is derecognized when it is replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive income (loss) during the period in which they are incurred. Depreciation of property and equipment is calculated using either the straight-line or diminishing balance methods to allocate the cost of each item over its estimated useful life, as follows::

Asset class	Percentage	Method
Computer equipment	30% - 45%	Diminishing balance
Office equipment and furniture	20%	Diminishing balance
Laboratory equipment	20%	Diminishing balance
Leasehold improvements	Term of lease plus one renewal period	Straight-line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

On disposal of items of property and equipment, the cost and related accumulated depreciation and impairments are removed from the consolidated balance sheet and the net amount, less any proceeds, is taken to the consolidated statement of comprehensive income (loss).

2.5 Intangible assets

Intangible assets consist of intellectual property in the form of technology, patents, licenses and compounds. Separately acquired intangible assets are recorded at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date. All intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives of up to 20 years.

2.6 Impairment of non-financial assets

Property and equipment and intangible assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial Instruments: Classification and Measurement

IFRS 9 was issued in November, 2009 and replaces parts of IAS 39 that relate to the classification and measurement of financial assets. IFRS 9 (2009) requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company has adopted IFRS 9 from July 1, 2010 as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

The Company has assessed the financial assets held by the Company at July 1, 2010, the date of initial application of IFRS 9. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets measured at amortized cost

Cash and cash equivalents, short term investments and trade and other receivables meet the requirements of IFRS 9 (2009) and are measured at amortized cost as these assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have fixed maturities that the Company intends to hold until maturity. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Financial liabilities measured at fair value

The Company's contingent consideration payable is measured at fair value at each reporting period with changes in the fair value being recorded in the consolidated statement of comprehensive income (loss). The estimate of fair value is based on management's best estimate of the timing and probability of having to make the contingent payments, discounted at the Company's weighted average cost of capital.

Fair Value Hierarchy

The Company categorizes its financial assets and liabilities that are recognized at fair value in the consolidated financial statements into one of three different levels. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets;

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

2.8 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income (loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the consolidated statement of comprehensive income (loss).

2.9 Investment tax credits

Investment tax credits (ITCs) are accounted for as government assistance and are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. Government assistance is accounted for using the cost reduction method, whereby they are netted against the related research and development expenses or capital expenditures to which they relate.

2.10 Other receivables

Trade and other receivables are amounts due for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.11 Cash

Cash includes cash on hand and deposits held with banks.

2.12 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, warrants or options are shown in equity as a deduction, net of income tax, from the proceeds received.

2.13 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2.14 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than

a business combination that at the time of the transaction affects either accounting, taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Share-based payments

The Company has a stock option plan which is an equity settled, share-based payment compensation plan, under which the Company receives services from employees or consultants as consideration for equity instruments of the Company. The stock option plan is open to directors, officers, employees, members of the Scientific Advisory Board and consultants of the Company. The fair value of the employees or consultants services received in exchange for the grant of the options is recognized as an expense over the service period using the graded vesting method.

The fair value of stock options is estimated using the Black-Scholes option pricing model. This model requires the input of a number of assumptions, including expected dividend yield, expected share price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. Changes in these assumptions could significantly impact share-based payment compensation.

The share-based payment reserve, included in equity, is reduced as the options are exercised or when the options expire unexercised. If the share options are exercised, cancelled or forfeited, the amount initially recorded for the options in share-based payment reserve is credited to common shares or contributed surplus, along with the proceeds received on the exercise. If the share options expire unexercised, the amount initially recorded for the options in the share based payment reserve is credited to contributed surplus.

2.16 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of services in the ordinary course of the Company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

The Company generally enters into two types of revenue producing arrangements with pharmaceutical companies: licensing arrangements and collaboration / co-development arrangements ("collaborations").

Licensing arrangements

Under a licensing arrangement the Company transfers the rights of a compound or series of compounds to a counterparty who directs the development, manufacture and commercialization of the product. The Company's additional involvement is limited to involvement in a joint steering committee which the Company generally considers

protective in nature. In return, the Company will generally receive an upfront fee, additional payments based on specifically defined developmental, regulatory, and commercial milestones, and a royalty based on a percentage of future sales of the product.

Revenue related to up-front payments received in licensing arrangements are deferred and amortized into income over the estimated term of the arrangement. Revenue from milestone payments are recognized when the milestones are achieved.

Collaboration arrangements

Under a collaboration arrangement the Company participates in the development by paying a fixed share of the development and commercialization costs in return for a fixed percentage of the product's future profits. For contributing rights to the intellectual property the co-collaborator will pay the Company an upfront fee and additional payments based on specifically defined developmental and regulatory milestones. Collaboration agreements generally require the Company to participate in joint steering committees and to participate actively in the research and development of the product.

The Company accounts for collaboration arrangements using the percentage of completion model. Under this method, revenue is recorded as related costs are incurred, on the basis of the proportion of actual costs incurred to date, related to the estimated total costs to be incurred under the arrangement. The cumulative impact of any revisions in cost and earnings estimates are reflected in the period in which the need for a revision becomes known. In the event that there are significant uncertainties with respect to the outcome of the contract, the Company uses a zero profit model whereby revenue will be recognized equal to direct costs incurred, but not in excess of cash received or receivable. Losses on these contracts are recorded in the period in which management has determined that a loss is expected.

The Company uses an input based measure, primarily direct costs or other appropriate inputs, to determine the percent complete because the Company believes that the inputs are representative of the value being conveyed through the research and development activities. The Company believes that using direct costs as the unit of measure of percentage complete also most closely reflects the level of effort related to the Company's performance under the arrangement. Direct costs are those costs that directly result in the culmination of an earnings process for which the counterparty to the arrangement receives a direct benefit. The nature of these costs are third party and internal costs associated with conducting clinical trial activities, allocated payroll related costs for representatives participating on the joint steering committee and sales and marketing costs during the co-commercialization period. Direct costs specifically exclude costs that are of a general and administrative nature.

Amounts resulting from payments received in advance of revenue recognized are recorded as deferred revenue.

The Company is required to assess the profitability of the overall arrangement on a periodic basis throughout the life of the arrangement when events or circumstances indicate a potential change in facts. Such assessment is based on estimates to determine the most likely outcome based on available facts and circumstances at each assessment date. The estimates include the consideration of factors such as the progress and timing of clinical trials, competition in the market, the development progress of other potential competitive therapies, drug related serious adverse events and other safety issues in the clinical trials, pricing reimbursement in relevant markets and historical costs incurred compared to original estimates. When the periodic assessment or other events or circumstances indicate a loss will result from performance under the arrangement, the entire amount of the loss is charged to the statement of comprehensive consolidated income (loss) in the period in which the determination is made.

2.17 Research and development

Research and development expenses include salaries, share-based payments, clinical trial costs, manufacturing and research inventory. Research and development expenditure is charged to the consolidated statement of comprehensive income (loss) in the period in which it is incurred. Development expenditure is capitalized when the criteria for recognizing an asset are met.

Research inventories

Inventories consist of materials that are used in future studies and clinical trials, and are measured at the lower of cost and net realizable value. Net realizable value is measured at the estimated selling price of the inventory less estimated costs of completion and estimated costs to make the sale. The amount of the write-down of inventories is included in research and development expense in the period the loss occurs, which is currently at the time the inventory is acquired since the Company does not intend to sell the material used in studies and clinical trials.

2.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

2.19 IFRS issued but not yet adopted

IAS 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, 2017, however the IASB has proposed to defer the date of adoption to 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues 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 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. See note 6 for additional information on charges in useful life and impairment testing. The Company assesses its intangible assets for recoverability whenever indicators of impairment exist. 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 $1,428,951. Conversely a decrease of 10% applied to the probability assumptions, with all other variables held constant, would reduce the contingent consideration payable by $1,858,858;

(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 $1,080,299. Conversely, a decrease of 5% to the discount rate would increase the contingent consideration payable by $1,538,400.

Management revisited the assumptions used in the valuation of the contingent consideration payable and accordingly, the Company has recognized a change in fair value of contingent consideration payable of $65,787 during the fiscal year ended June 30, 2015.

June 30, 2015 (In Canadian dollars)

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. Assumptions used to estimate the fair value of stock options granted and warrants issued are disclosed in notes 11 and 10, respectively.

Settlement of a Pre-Existing Relationship

The Company has determined that the transactions entered into with Perrigo Company plc on February 28, 2014 resulted in the re-acquisition of the rights for the development and commercialization of ELND005 previously licensed to Elan Pharmaceuticals plc ("Elan") which in accordance with IFRS must be accounted for as a settlement of a pre-existing relationship (the collaboration agreement between Waratah and Elan). Accordingly, the company has expensed $3,096,186 during the year ended June 30, 2014 as the cost related to the settlement of the pre-existing relationship.

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 at fair value. The following table outlines the Company's financial instruments, their classification, carrying value and fair value.

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
Accounts payable and accrued liabilities	Other liabilities	8,549,895	8,549,895
Contingent consideration payable	Fair value through profit and loss	4,361,601	4,361,601

Financial Instruments as at June 30, 2014	Classification	Carrying Value $	Fair Value $
Cash	Loans and receivables	57,212,004	57,212,004
Short term investments	Loans and receivables	3,059,562	3,059,562
Other receivables	Loans and receivables	220,574	220,574
Accounts payable and accrued liabilities	Other liabilities	5,963,258	5,963,258
Contingent consideration payable	Fair value through profit and loss	3,838,286	3,838,286

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. Fair value of short term investments is determined based on a valuation model that uses daily pricing reports to determine the amount the holder would receive if the instrument were sold on that day. The fair value of the contingent consideration payable is determined using a valuation model as discussed in note 3.

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) Market risk

(i) 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 June 30, 2015 and 2014 are approximately:

	2015 US$	2014 US$
Cash	30,544,014	48,722,203
Trade and other payables	(102,464)	(711,490)
	30,441,550	48,010,713

Fluctuations in the US dollar exchange rate could potentially have a significant impact on the Company's results. At June 30, 2015, if the Canadian dollar weakened 10% against the US dollar, with all other variables held constant, comprehensive income for the year ended June 30, 2015 would have increased by approximately $1,551,000. Conversely, if the Canadian dollar strengthened 10% against the US dollar, with all other variables held constant, comprehensive income for the year ended June 30, 2015 would have decreased by approximately $1,551,000.

(ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short term investments are at a fixed rate of interest and accordingly are not exposed to changes in market interest rates, however, their fair value can vary with the change in market interest rates. The Company's cash is exposed to changes in market interest rates. An increase (decrease) in the market interest rate of 1% would decrease (increase) net loss by $435,632 and ($196,035) respectively.

June 30, 2015 (In Canadian dollars)

Although the Company monitors market interest rates, the Company's investment policies are designed to maintain safety of principal and provide adequate liquidity to meet all current payment obligations and future planned expenditures. The Company does not speculate on interest rates and holds all deposits until their date of maturity.

Interest income from cash, cash equivalents and short term investments was $196,104 for the year ended June 30, 2015 (2014 - $219,273).

(b) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company's exposure to credit risk at the period end is the carrying value of its cash and short term investments. The Company manages credit risk by maintaining bank accounts with financial institutions of high creditworthiness. Short term investments consist of bankers' acceptances and other debentures maturing in less than 12 months and ratings of R-1 or higher.

(c) 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 June 30, 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.

The contingent consideration payable is expected to be paid as follows:

Fiscal year ending June 30, 2016	$ 2,847,759
Fiscal year ending June 30, 2021	$ 3,797,096
Fiscal year ending June 30, 2022	$ 16,761,664
Fiscal year ending June 30, 2023	$ 18,735,000
Fiscal year ending June 30, 2024	$ 18,735,000

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 interest income and collaborative partnership arrangements.

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 year ended June 30, 2015 from the year ended June 30, 2014.

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. SHORT TERM INVESTMENTS

At June 30, 2014, short term investments consisted of two medium term note debentures totaling $3,059,562 with ratings of R1 or higher that matured on October 25, 2014 and November 28, 2014. There were no gains or losses realized on the disposal of the short term investments during the years ended June 30, 2015 and 2014 as all the financial assets were held to their redemption date. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and short term investments.

June 30, 2015 (In Canadian dollars)

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Technology acquired (ELND005) $	Lilly Licenses acquired (TT401/402) $	Lilly SARM Licenses acquired (TT701) *(note 9a)* $	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

	Technology acquired (ELND005) $	Lilly Licenses acquired (TT401/402) $	Total $
As at July 1, 2013			
Cost	20,547,993	1,055,900	21,603,893
Accumulated amortization	(12,488,792)	(176,427)	(12,665,219)
Net book value	8,059,201	879,473	8,938,674
As at June 30, 2014			
Cost	20,547,993	1,055,900	21,603,893
Accumulated amortization	(13,367,489)	(229,223)	(13,596,712)
Net book value June 30, 2014	7,180,504	826,677	8,007,181
Year ended June 30, 2014			
Opening net book value	8,059,201	879,473	8,938,674
Amortization charge	(878,697)	(52,796)	(931,493)
Net book value June 30, 2014	7,180,504	826,677	8,007,181

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. The Company is performing a thorough review of the data from the completed study in agitation and aggression. An external clinical advisory board is working with the Company to evaluate the data and consider potential future clinical development paths for ELND005.

In light of the series of agreements the Company entered into with Perrigo Company plc in fiscal 2014 relating to the ELND005 technology, management reviewed the estimate of the remaining useful life of the ELND005 technology and extended the remaining useful life to 12 years. Accordingly, the change in estimate resulted in a decrease in amortization expense of $108,774 being recognized during the year ended June 30, 2014.

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.

7. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

	June 30, 2015 $	June 30, 2014 $
Accounts payable	2,594	1,591,128
Accrued expenses:		
Clinical trials and manufacturing	7,769,521	3,320,992
Salaries and benefits	398,017	224,879
Professional fees and services	235,477	628,827
Other	144,286	197,432
	8,547,301	4,372,130
	8,549,895	5,963,258

8. 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. On February 28, 2014, the Company became responsible for the development of ELND005 and accordingly has re-evaluated the development program timelines and adjusted the estimate relating to the timing of the milestone payments. Accordingly, the Company has recognized a liability as at June 30, 2015 of $1,429,884 (June 30, 2014 - $1,030,775) 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 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 June 30, 2015 of $2,931,717 (June 30, 2014 - $2,807,511) which represents the fair value of the contingent consideration payable to Perrigo.

June 30, 2015 (In Canadian dollars)

Contingent Consideration Payable	Payable to ENI $	Payable to Perrigo $	Total $
Balance at July 1, 2013	3,756,331	-	3,756,331
Settlement of pre-existing relationship (note 3)	-	3,096,186	3,096,186
Change in contingent consideration payable	(2,725,556)	(185,662)	(2,911,218)
Foreign exchange	-	(103,013)	(103,013)
Balance at June 30, 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

Significant assumptions and the sensitivity of changes to these assumptions are discussed in Note 3.

9. LICENSING AND COLLABORATION AGREEMENT 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. 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 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.

10. SHARE CAPITAL

[a] Authorized

At June 30, 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

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 $2,492,010, resulting in net cash proceeds of $26,069,390.

On June 23, 2014, the Company announced the closing of its private placement financing issuing 3,195,487 units of the Company to existing shareholders, board members and management at a price of US$5.32 per unit, raising gross proceeds of $18,319,000 (US$17.0 million). Each unit consists of one common share and 0.61 Common Share purchase warrant with a purchase price of US$7.10 per whole warrant. The Company incurred total share issuance costs of $106,000, resulting in net cash proceeds of approximately $18,213,000.

On February 28, 2014, the Company issued 2,255,640 common shares to a subsidiary of Perrigo for gross proceeds of $16,422,000 (US$15.0 million). The Company incurred total share issuance costs of $59,000, resulting in net cash proceeds of approximately $16,363,000.

On August 15, 2013, the Company announced the closing of its private placement financing issuing 2,625,300 units of the Company to existing shareholders, board members and management at a price of US$4.19 per unit, raising gross proceeds of $11,439,000 (US$11.0 million). Each unit consists of (i) one common share, (ii) 0.325 Common Share purchase warrant with a purchase price of US$4.60 per whole warrant and (iii) 0.4 Common Share purchase warrant with a purchase price of US$6.50 per whole warrant. The Company incurred total share issuance costs of $521,000, resulting in net cash proceeds of approximately $10,918,000.

At June 30, 2015, there were 38,878,879 common shares issued and outstanding [June 30, 2014 – 35,303,913].

Warrants

Details of whole warrants outstanding at June 30, 2015 are as follows:

Warrants	#	Fair Value at Date of Issuance $	Expiry Date
US$4.60 Warrants issued at 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 June 30, 2015 and 2014	3,852,591	5,176,397	

June 30, 2015 (In Canadian dollars)

The outstanding warrants at June 30, 2015 have a total fair value at date of issuance of $5,176,397 which was calculated using the Black-Scholes pricing model with the following assumptions:

Warrants Issued	**August 15, 2013**	**June 23, 2014**
Risk free interest rate	1.18%	1.03%
Expected dividend yield	0%	0%
Stock price volatility	0.6348	0.6694
Expected life of warrants	2.0 years	2.0 years

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

If and when all of the remaining warrants are exercised, the Company may realize up to an additional US$13.8 million in proceeds.

[c] Stock Options

Stock options	#	$	Weighed Average Exercise Price $
Stock options outstanding, July 1, 2014	2,305,589	2,866,292	3.91
Stock options issued [i]	518,500	-	8.80
Stock options exercised [ii]	(36,505)	(77,838)	3.07
Stock options expired [iii]	(832)	(3,686)	6.00
Stock options forfeited or cancelled [iv]	(30,988)	-	5.75
Stock based compensation expense	-	3,107,537	-
Stock options outstanding, June 30, 2015	2,755,764	5,892,305	4.82

Stock options	#	$	Weighed Average Exercise Price $
Stock options outstanding, July 1, 2013	1,872,000	2,352,002	2.97
Stock options issued [i]	742,000	-	6.12
Stock options exercised [ii]	(296,852)	(623,617)	3.59
Stock options forfeited or cancelled [iv]	(11,559)	(219)	2.82
Stock based compensation expense	-	1,138,126	-
Stock options outstanding, June 30, 2014	2,305,589	2,866,292	3.91

[i] The fair value of the stock options issued during the year ended June 30, 2015 was $3,211,700 [2014 - $3,346,000].

[ii] During the year ended June 30, 2015, 36,505 stock options were exercised. These stock options had a fair value of $77,838 at the grant date and resulted in cash proceeds to the Company of $111,772.

During the year ended June 30, 2014, 296,852 stock options were exercised. These stock options had a fair value of $623,617 at the grant date and resulted in cash proceeds to the Company of $1,065,757.

[iii] During the year ended June 30, 2015, 832 stock options expired unexercised. These stock options had a fair value of $3,686 which was reclassified to contributed surplus. No stock options expired unexercised during the year ended June 30, 2014.

[iv] During the year ended June 30, 2015, 30,988 stock options were forfeited or cancelled. These options had a fair value of $131,363 and were unvested at the date of forfeit.

In the year ended June 30, 2014, 11,559 stock options were forfeited or cancelled, of which 83 were fully vested. The vested options had a fair value of $219 which has been reclassified to contributed surplus.

[v] The maximum possible cash proceeds to the Company from the exercise of the stock options outstanding at June 30, 2015 are $13,274,428 [June 30, 2014 - $9,005,578].

11. STOCK-BASED COMPENSATION PLANS

The Company's stock option plan is designed to attract and retain key individuals and recognize individual and overall corporate performance. In terms of performance, the Company's policy is to establish annual goals with respect to business strategy and the individual's area of direct responsibility. The Company grants options to its employees at the time when they join the organization and then subsequent grants are issued at the discretion of the Board of Directors. Grants issued are based on the level of the position that the employee is hired for and their overall experience and subsequent grants are based on the level of position, the Company's performance, and the employee's performance. Stock option grants are approved by the Board of Directors. The Board of Directors considers the amount and the terms of outstanding options when determining whether and how many new option grants will be made.

Options granted to employees generally vest monthly or annually over a 3 to 4 year period. The exercise price of the options is equal to the greater of (1) the closing price the day prior to the grant; (2) the weighted average trading price for five trading days prior to grant; and (3) the price determined by the Board of Directors at the time of the grant. All grants expire 10 years after the grant date or generally terminate 3 to 6 months after the employee leaves the Company depending on the circumstances of their departure.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model. The expected volatilities have been computed based on trailing 8 year historical share price trading data of week ending closing prices. The risk-free rate is based on the 8 year Government of Canada marketable bond rates in effect at the time of the grants. The expected life of the option is estimated to be 8 years based on historical option exercising patterns.

June 30, 2015 (In Canadian dollars)

All stock options granted under the Plan must be exercised within a maximum period of ten years following the grant date thereof (5 years for options granted prior to December 7, 2010). Options expiring during a blackout period are extended until 10 trading days after the blackout period is lifted. The maximum number of common shares that may be issued pursuant to stock options granted under the Plan shall not exceed 10% of the issued and outstanding common shares.

As at June 30, 2015, there are 1,132,124 options available for issuance under the Plan. The maximum number of common shares that may be issued to any individual pursuant to stock options granted under the Plan will not exceed 5% of the outstanding common shares and the total number of common shares that may be issued to consultants pursuant to stock options granted under the Plan will not exceed 2% of the issued and outstanding common shares in any twelve month period. The vesting period is determined at the time of each option grant but must not exceed five years.

A summary of options outstanding as at June 30, 2015 under the plans are presented below:

	Outstanding			**Exercisable**		
Range of exercise prices $	**Number of options #**	**Weighted average remaining contractual life [years]**	**Weighted average exercise price $**	**Number of options #**	**Weighted average remaining contractual life [years]**	**Weighted average exercise price $**
2.09-3.00	702,601	6.85	2.18	702,601	6.85	2.18
3.22-3.66	824,663	5.47	3.44	739,951	5.18	3.41
6.00-7.70	755,000	8.98	6.21	269,322	8.99	6.27
8.73-10.19	473,500	9.79	8.93	34,069	9.76	8.73
	2,755,764			1,745,943		

A summary of options outstanding as at June 30, 2014 under the plans are presented below:

	Outstanding			Exercisable		
Range of exercise prices $	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price $	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price $
2.09-2.10	658,174	7.93	2.10	455,544	7.94	2.10
3.00-3.22	403,187	6.92	3.19	315,610	6.93	3.18
3.42-3.66	502,228	6.08	3.58	299,524	4.11	3.54
6.00-7.67	742,000	9.96	6.12	-	-	-
	2,305,589			1,070,678		

For the year ended June 30, 2015, total stock based compensation expense was $3,107,537 [2014 - $1,138,126], split between general and administrative expense of $1,329,909 [2014 - $636,531] and research and development of $1,777,628 [2014 - $501,595].

The fair value of options granted during fiscal 2015 is $3,211,700 [2014 - $3,346,000]. The fair value of the options at the date of grant for the year ended June 30, 2015 was estimated using the Black-Scholes option pricing model based on the following assumptions: expected option life of 8 years [2014 - 8 years], volatility between 0.7324 and 0.7673 [2014 – between 0.7679 and 0.7691], risk free interest rate between 0.95 and 1.75% [2014 –1.79%] and a dividend yield of 0% [2013 - 0%].

The weighted average grant date fair value of options granted during the year ended June 30, 2015 was $6.19 [2014 - $4.51].

As at June 30, 2015 and 2014, total compensation cost related to non-vested awards not yet recognized is $2,354,038 and $3,282,863, respectively. The weighted average period over which it is expected to be recognized is 27 and 32 months respectively.

For fiscal 2015, the weighted average exercise price and the weighted average remaining contractual life of the outstanding stock options are $4.82 and 7.53 years [2014 - $3.91 and 8.01 years]. The weighted average exercise price and the weighted average remaining contractual life of the exercisable stock options are $3.46 and 6.53 years [2014 - $2.82 and 6.57 years].

The intrinsic value of options exercised during fiscal 2015 is $328,169 [2014 - $506,341] and the intrinsic value of options granted for fiscal 2015 and 2014 is nil.

12. INCOME TAXES

[a] As at June 30, 2015, the Company has total non-capital losses of approximately $78,156,000 [2014- $64,969,000] available for carry forward to reduce future taxable income in Canada, the United States of America and Ireland. The non-capital losses will begin to expire as follows:

	$
2026	1,168,000
2027	5,239,000
2028	4,470,000
2029	5,481,000
2030	7,006,000
2031	5,677,000
2032	6,565,000
2033	925,000
2034	6,722,000
2035	34,903,000
	78,156,000

June 30, 2015 (In Canadian dollars)

As at June 30, 2015, the Company also has approximately $41,445,000 [2014 - $40,243,000] in Canadian scientific research and experimental development expenditures which can be carried forward indefinitely to reduce future years' taxable income. During fiscal 2015 the Company recorded nil [2014 - $193,000] refundable provincial ITCs which was recorded as a reduction to research and development, net. The Company has approximately $9,035,000 [2014 - $9,044,000] in federal ITCs and $865,000 [2014 - $700,000] of non-refundable Ontario Research Development Tax Credits that can be carried forward for up to twenty years and used to reduce the Company's taxes payable.

[b] Significant components of the Company's unrecognized deferred tax assets and deferred tax liabilities are as follows:

	2015 $	2014 $
Deferred tax assets not recognized		
Capital and intangible assets	7,054,767	2,098,064
Non-capital loss carryforwards	15,192,929	16,470,897
Canadian scientific research and experimental development expenditures	10,982,806	10,664,292
Investment tax credits	7,601,282	7,321,900
Contingent consideration payable	745,384	624,094
Financing and share issuance costs	652,472	175,602
Loss on disposal of SCT shares	33,681	33,681
Total deferred tax assets not recognized	42,263,321	37,388,530
Deferred tax assets and liabilities		
Intangible assets	-	(284,718)
Leasehold inducement	-	(3,028)
Non-capital loss carryforwards	-	287,746
Net deferred tax liability	-	-

[c] The reconciliation of income tax attributable to continuing operations computed at the statutory tax rates to income tax recovery is as follows:

	2015 $	2014 $
Tax recovery at combined federal and provincial rates of 26.5% (2014 – 26.5%)	(13,604,975)	(5,772,298)
Non-deductible permanent differences:		
Stock-based compensation	823,498	301,603
Other permanent and non-deductible items	28,969	6,831
Difference in foreign tax rates	4,873,673	889,481
Deferred tax assets (recognized) not recognized for accounting	7,878,835	4,574,383
	-	-

13. EXPENSES BY NATURE

	2015 $	2014 $
Research and development		
Clinical trials and manufacturing	41,810,031	13,327,761
Salaries and benefits	4,202,745	2,432,519
Stock compensation expense	1,777,628	501,595
Amortization	617,167	937,441
Facility lease costs and utilities	290,440	196,307
Insurance	176,800	85,825
General laboratory supplies and materials	334,892	132,493
Ontario investment tax credits	-	(246,556)
	49,209,703	17,367,385
Selling, general and administrative expenses		
Salaries and benefits	2,039,328	1,601,891
Stock compensation expense	1,329,909	636,531
Professional fees and services	775,597	987,997
Insurance	261,173	223,943
Facility lease costs and utilities	156,852	151,192
Business development, corporate communication and investor relations	505,297	798,954
Regulatory and stock transfer fees	137,412	138,975
Office and related expenses	274,495	177,635
Amortization	34,209	9,456
	5,514,272	4,726,574

June 30, 2015 (In Canadian dollars)

14. EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Outstanding options to purchase common shares of 2,755,764 [June 30, 2014 – 2,305,589] and the warrants to purchase 1,903,341 common shares [June 30, 2014 – 853,223] are not included in the calculation of diluted earnings per share as the effect is anti-dilutive due to the losses incurred in the period.

For the year ended June 30, 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.

	2015	2014
Loss attributable to equity holders of the Company	(51,339,528)	(21,782,255)
Weighted average number of common shares outstanding	36,523,897	30,094,825

15. CONTINGENCIES AND COMMITMENTS

[a] As at June 30, 2015, the Company is committed to aggregate expenditures of nil [2014 -$14,976,412] under its collaboration agreements. In addition, at June 30, 2015, the Company is committed to aggregate expenditures of approximately $3,541,000 [2014 - $13,613,000] for clinical and toxicity studies to be completed during fiscal 2016, approximately $215,000 [2014 - $128,049] for manufacturing agreements and approximately $327,000 for consulting and other agreements [2013 – $482,000].

[b] The Company leases premises under an operating lease which originally expired on June 30, 2011 but has been extended to 2020. The Company also sub-leases premises under an operating lease which expires on December 31, 2015. In addition, the Company leases photocopiers under operating leases that expire on various dates to August 2018. Future minimum annual lease payments under these operating leases, in aggregate and over the next five years are as follows:

	$
2016	238,179
2017	173,651
2018	169,514
2019	154,293
2020	153,160
	888,797

During the year, the rental expense for the various premises under operating leases was $273,071 [2014 - $187,762].

[c] The Company's technology related commitments are as follows:

[i] ELND005 Technology License:

The Company has a worldwide exclusive license to intellectual property relating to ELND005 with the inventor, an Alzheimer's disease researcher at the University of Toronto. Under the agreement, the inventor may receive milestone payments of up to $150,000. For therapeutic products, a royalty of 2.5% will be due on the first $100,000,000 of revenues received by the Company and 1.5% of revenues thereafter. For diagnostic products, a royalty of 10% will be due on the first $100,000,000 of revenues received by the Company and 7% of revenues thereafter. Also, the inventor may receive up to $25,000 for additional patent applications under this license. The agreement remains in force until the expiration of the last to expire patent.

In addition, under the terms of the ENI 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 ELND005 product (see note 8a).

In light of the series of transactions entered into on February 28, 2014, the Company is also committed to pay Perrigo Company plc up to US$40,000,000 in approval and commercial milestone payments and 6.5% royalties on net sales of ELND005 products and sublicense fees received (see note 8b).

[ii] TT701 Selective Androgen Receptor Molecule ("SARM")

On May 6, 2015, the Company 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. Under the terms of the agreement, TTIL has acquired rights to develop and commercialize TT701. Lilly will receive contingent upfront consideration of up to US$1 million of which US$500,000 ($624,500) has been paid as at June 30, 2015. In addition, Lilly is eligible to receive up to US$100 million in commercial milestones and a mid-single digit royalty on sales of TT701 products should such products be successfully commercialized.

16. CHANGE IN WORKING CAPITAL

The change in working capital consists of the following:

	2015 $	2014 $
Trade and other receivables	(44,675)	(186,493)
Income tax and investment tax credits receivable	(187,275)	(31,741)
Prepaid expenses and deposits	(222,487)	322,508
Trade and other payables	1,828,323	5,153,165
	1,373,886	5,257,439

June 30, 2015 (In Canadian dollars)

17. 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 shown below:

	2015 $	2014 $
Salaries and other short-term employee benefits	2,525,182	1,849,886
Stock-compensation expenses	1,856,849	964,237
	4,382,031	2,814,123

During fiscal 2015, the Company paid legal fees to a law firm where the Company's Secretary is a partner and to a corporation controlled by the Company's Secretary. Total fees and disbursements charged to the Company by these companies was $45,346 [2014 – $49,000] and are included in general and administrative expenses. The balance owing at June 30, 2015 and 2014 is nil.

Members of the Company's Board of Directors, management and employees participated in both the August, 2013 and June, 2014 private placements (see note 10).

These transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18. GUARANTEES

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

19. SEGMENT DISCLOSURE

The Company operates in one operating segment, the research and development of therapeutic agents.

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

ANNUAL GENERAL MEETING

December 10, 2015 @ 4:00 pm
MaRS Center, South Tower
101 College Street, Main floor, room CR3
Toronto, Ontario, Canada

TRANSITION THERAPEUTIC INC.
101 College St., Suite 220, Toronto, Ontario M5G 1L7 Canada | T. 416-260-7770 | www.transitiontherapeutics.com