Raptor Pharmaceutical Corp
Form 10-Q/A
January 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2009

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-25571

Raptor Pharmaceutical Corp.
(Exact name of registrant as specified in its charter)

Delaware	86-0883978
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 Commercial Blvd., Suite 200, Novato, CA 94949
(Address of principal executive offices)

(415) 382-8111
(Registrant's telephone number, including area code)

TorreyPines Therapeutics, Inc., P.O. Box 231386, Encinitas, CA 92023-1386, December 31
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

There were 22,579,515 shares of the registrant’s common stock, $.001 par value per share, outstanding at January 11, 2010.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the "Amendment") amends the Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2009 of Raptor Pharmaceutical Corp. (the "Company"), which was originally filed with the Securities and Exchange Commission (the "SEC") on January 14, 2009 (the "Original Quarterly Report"). This Amendment amends the disclosure in (i) Part I, Item 1, "Financial Statements - Unaudited Condensed Consolidated Statements of Cash Flows for the three month periods ended November 30, 2009 and 2008 and the cumulative period from September 8, 2005 (inception) to November 30, 2009" of the Original Quarterly Report to correct four typographical errors contained therein, and (ii) Part II, Item 4, "Submissions of Matters to a Vote of Security Holders" of the Original Quarterly Report to include updated disclosure regarding the Company's results of its Annual Meeting of Stockholders held on September 28, 2009.

Except as set forth above, this Amendment does not amend, modify or update any other disclosures or Item presented in the Original Quarterly Report. Except as specifically set forth herein, this Amendment does not reflect events occurring after the filing of the Original Quarterly Report or amend, modify or update those disclosures or Items, including exhibits to the Original Quarterly Report affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Quarterly Report, including any amendments to those filings. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, new certifications of our principal executive officer and principal financial officer are being filed as exhibits to this Amendment.

RAPTOR PHARMACEUTICAL CORP.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Balance Sheets

ASSETS	November 30, 2009 (unaudited)	August 31, 2009 (1)
Current assets:		
Cash and cash equivalents	$ 1,164,808	$ 3,701,787
Prepaid expenses and other	231,958	107,054
Total current assets	1,396,766	3,808,841
Intangible assets, net	3,627,667	2,524,792
Goodwill	3,275,403	-
Fixed assets, net	130,868	144,735
Deposits	100,206	100,206
Total assets	$ 8,530,910	$ 6,578,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Accounts payable	$ 1,102,197	$ 613,577
Accrued liabilities	844,282	451,243
Deferred rent	496	-
Capital lease liability – current	4,292	4,117
Total current liabilities	1,951,267	1,068,937
Capital lease liability - long-term	5,535	6,676
Total liabilities	1,956,802	1,075,613
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 15,000,000 shares authorized, zero shares issued and outstanding	-	-
Common stock, $0.001 par value, 150,000,000 shares authorized 18,831,957 and 17,857,555 shares issued and outstanding as at November 30, 2009 and August 31, 2009, respectively	18,832	17,858

Additional paid-in capital	31,373,131	27,364,286
Deficit accumulated during development stage	(24,817,855)	(21,879,183)
Total stockholders' equity	6,574,108	5,502,961
Total liabilities and stockholders' equity	$ 8,530,910	$ 6,578,574

(1) Derived from the Company's audited consolidated financial statements as of August 31, 2009.

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

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	For the three month periods from September 1, to November 30,	
	2009	2008
Revenues:	$ -	$ -
Operating expenses:		
General and administrative	1,010,076	659,689
Research and development	1,930,836	1,820,400
Total operating expenses	2,940,912	2,480,089
Loss from operations	(2,940,912)	(2,480,089)
Interest income	3,265	21,777
Interest expense	(1,025)	(686)
Net loss	$ (2,938,672)	$ (2,458,998)
Net loss per share:		
Basic and diluted	$ (0.16)	$ (0.17)
Weighted average shares outstanding used to compute:		
Basic and diluted	18,520,579	14,074,849

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

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	For the cumulative period from September 8, 2005 (inception) to November 30, 2009
Revenues:	$ -
Operating expenses:	
General and administrative	7,966,316
Research and development	16,805,120
In-process research and development	240,625
Total operating expenses	25,012,061
Loss from operations	(25,012,061)
Interest income	305,168
Interest expense	(110,962)
Net loss	$ (24,817,855)

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

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the three month periods from		For the cumulative period from September 8, 2005
	September 1, 2009 to November 30, 2009	September 1, 2008 to November 30, 2008	(inception) to November 30, 2009
Cash flows from operating activities:			
Net loss	$ (2,938,672)	$ (2,458,998)	$ (24,817,855)
Adjustments to reconcile net loss to net cash used in operating activities:			
Employee stock-based compensation exp.	25,803	116,518	1,240,830
Consultant stock-based compensation exp.	65,200	12,993	472,813
Amortization of intangible assets	37,124	34,626	282,332
Depreciation of fixed assets	17,169	21,996	368,110
In-process research and development	-	-	240,625
Amortization of capitalized finder's fee	-	-	102,000
Capitalized acquisition costs previously expensed	-	-	38,000
Changes in assets and liabilities:			
Prepaid expenses and other	(25,466)	(79,560)	(132,519)
Intangible assets	-	-	(150,000)
Deposits	-	-	(100,207)
Accounts payable	488,620	74,158	1,102,197
Accrued liabilities	(287,792)	29,080	163,556
Deferred rent	496	91	391
Net cash used in operating activities	(2,617,518)	(2,249,096)	(21,189,727)
Cash flows from investing activities:			
Purchase of fixed assets	(3,303)	(3,592)	(479,653)
Cash acquired in 2009 Merger	581,395	-	581,394
Net cash from investing activities	578,092	(3,592)	101,741
Cash flows from financing activities:			

Proceeds from the sale of common stock	-	-	17,386,000
Proceeds from the exercise of common stock warrants	56,020	-	6,565,520
Proceeds from the exercise of common stock options	4,750	-	13,448
Fundraising costs	(557,358)	(20,296)	(2,012,679)
Proceeds from the sale of common stock to initial investors	-	-	310,000
Proceeds from bridge loan	-	-	200,000
Repayment of bridge loan	-	-	(200,000)
Principal payments on capital lease	(965)	(770)	(9,495)
Net cash provided by (used in) financing activities	(497,553)	(21,066)	22,252,794
Net increase (decrease) in cash and cash equivalents	(2,536,979)	(2,273,754)	1,164,808
Cash and cash equivalents, beginning of period	3,701,787	7,546,912	-
Cash and cash equivalents, end of period	$ 1,164,808	$ 5,273,158	$ 1,164,808
Supplemental disclosure of non-cash financing activities:			
Common stock and warrants issued in connection with reverse merger	$ 4,415,403	$ -	$ 4,415,403
Acquisition of equipment in exchange for capital lease	$ -	$ 14,006	$ 21,403
Notes receivable issued in exchange for common stock	$ -	$ -	$ 110,000
Common stock issued for a finder's fee	$ -	$ -	$ 102,000
Common stock issued in asset purchase	$ -	$ -	$ 2,898,624

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

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS AND BUSINESS RISKS

The accompanying condensed consolidated financial statements reflect the results of operations of Raptor Pharmaceutical Corp. (the "Company" or "Raptor") and have been prepared in accordance with the accounting principles generally accepted in the United States of America.

On July 28, 2009, the Company and ECP Acquisition, Inc., a Delaware corporation, the Company's then-wholly-owned subsidiary, herein referred to as merger sub, entered into an Agreement and Plan of Merger and Reorganization, herein referred to as the 2009 Merger Agreement, with Raptor Pharmaceuticals Corp. ("RPC"), a Delaware corporation. On September 29, 2009, on the terms and subject to the conditions set forth in the 2009 Merger Agreement, pursuant to a stock-for-stock reverse triangular merger, herein referred to as the 2009 Merger, merger sub was merged with and into Raptor Pharmaceuticals Corp. and Raptor Pharmaceuticals Corp. survived such 2009 Merger as the Company's wholly-owned subsidiary. Immediately prior to such 2009 Merger and in connection therewith, the Company effected a 1-for-17 reverse stock split of its common stock and changed its corporate name from "TorreyPines Therapeutics, Inc." to "Raptor Pharmaceutical Corp."

As a result of the 2009 Merger and in accordance with the 2009 Merger Agreement, each share of Raptor Pharmaceuticals Corp.'s common stock outstanding immediately prior to the effective time of the 2009 Merger was converted into the right to receive 0.2331234 shares of our common stock, on a post 1-for-17 reverse-split basis. Each option and warrant to purchase Raptor Pharmaceuticals Corp.'s common stock outstanding immediately prior to the effective time of the 2009 Merger was assumed by the Company at the effective time of the 2009 Merger, with each share of such common stock underlying such options and warrants being converted into the right to receive 0.2331234 shares of the Company's common stock, on a post 1-for-17 reverse split basis, rounded down to the nearest whole share of the Company's common stock. Following the 2009 Merger, each such option or warrant has an exercise price per share of the Company's common stock equal to the quotient obtained by dividing the per share exercise price of such common stock subject to such option or warrant by 0.2331234, rounded up to the nearest whole cent.

Immediately following the effective time of the 2009 Merger, Raptor Pharmaceuticals Corp.'s (as of immediately prior to the 2009 Merger) stockholders owned approximately 95% of the Company's outstanding common stock and the Company's (as of immediately prior to the 2009 Merger) stockholders owned approximately 5% of the Company's outstanding common stock.

Raptor Pharmaceuticals Corp., the Company's wholly-owned subsidiary, was the "accounting acquirer," and for accounting purposes, the Company was deemed as having been "acquired" in the 2009 Merger. The board of directors and officers that managed and operated Raptor Pharmaceuticals Corp. immediately prior to the effective time of the 2009 Merger became the Company's board of directors and officers. Additionally, following the effective time of the 2009 Merger, the business conducted by Raptor Pharmaceuticals Corp. immediately prior to the effective time of the 2009 Merger became primarily the business conducted by the Company.

The following reflects the Company's current, post 2009 Merger corporate structure (incorporation State):

Raptor Pharmaceutical Corp., formerly TorreyPines Therapeutics, Inc. (Delaware)

| |

TPTX, Inc. (Delaware) Raptor Pharmaceuticals Corp. (Delaware)

| |

Raptor Therapeutics Inc. (Delaware) Raptor Discoveries Inc. (Delaware)
(f/k/a Bennu Pharmaceuticals Inc.) (f/k/a Raptor Pharmaceutical Inc.)

Raptor is a publicly-traded biotechnology company dedicated to speeding the delivery of new treatment options to patients by enhancing existing therapeutics through the application of highly specialized drug targeting platforms and formulation expertise. The Company focuses on underserved patient populations where it can have the greatest potential impact. Raptor's preclinical division bioengineers novel drug candidates and drug-targeting platforms derived from the human receptor-associated protein ("RAP") and related proteins, while Raptor's clinical

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

division advances clinical-stage product candidates towards marketing approval and commercialization. Raptor's clinical programs include DR Cysteamine for the potential treatment of nephropathic cystinosis, non-alcoholic steatohepatitis ("NASH"), and Huntington's Disease. Raptor also has two clinical stage product candidates in which the Company is seeking to out-license or form a development partnership: ConviviaTM for the potential treatment of aldehyde dehydrogenase ("ALDH2") deficiency; and Tezampanel and NGX426, a non-opioid solution designed to treat chronic pain. Raptor's preclinical programs target cancer, neurodegenerative disorders and infectious diseases. HepTide™ is designed to utilize engineered RAP-based peptides conjugated to drugs to target delivery to the liver to potentially treat primary liver cancer and hepatitis. NeuroTrans™ represents engineered RAP peptides created to target receptors in the brain and are currently, in collaboration with Roche, undergoing preclinical evaluation for their ability to enhance the transport of therapeutics across the blood-brain barrier. WntTide™ is based upon Mesd and Mesd peptides that the Company is studying in a preclinical breast cancer model for WntTide™'s potential inhibition of Wnt signaling through LRP5, which may block cancers dependent on signaling through LRP5 or LRP6. Raptor is also examining Tezampanel and NGX426, for the treatment of thrombotic disorder. The Company's fiscal year end is August 31.

The Company is subject to a number of risks, including: the need to raise capital through equity and/or debt financings; the uncertainty whether the Company's research and development efforts will result in successful commercial products; competition from larger organizations; reliance on licensing proprietary technology of others; dependence on key personnel; uncertain patent protection; and dependence on corporate partners and collaborators.

See the section titled "Risk Factors" in Part II Item 1A of this Quarterly Report on Form 10-Q.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Company's condensed consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Raptor Pharmaceuticals Corp., Raptor Discoveries Inc., Raptor Therapeutics Inc., and TPTX, Inc. incorporated in Delaware on May 5, 2006, September 8, 2005 (date of inception), August 1, 2007, and April 24, 2000, respectively. All inter-company accounts have been eliminated. The Company's condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Through November 30, 2009, the Company had accumulated losses of approximately $24.8 million. Management expects to incur further losses for the foreseeable future. Management believes that the Company's cash and cash equivalents at November 30, 2009 along with the net funds raised subsequent to quarter-end in December 2009 of approximately $6.9 million (see the subsequent event Note 12) will be sufficient to meet the Company's obligations into the third calendar quarter of 2010. The Company is currently in the process of negotiating strategic partnerships and collaborations in order to fund its preclinical and clinical programs into 2011. If the Company is not able to close a strategic transaction, the Company anticipates raising additional capital in the second calendar quarter of 2010. If the Company is not able to obtain funds either through a strategic transaction or through the sale of its equity, it may not be able to continue as a going concern. Until the Company can generate sufficient levels of cash from its operations, the Company expects to

continue to finance future cash needs primarily through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners or through a business combination with a company that has such financing in order to be able to sustain its operations until the Company can achieve profitability and positive cash flows, if ever.

On September 29, 2009, upon the closing of the merger with RPC (as discussed further in the Note 9, Issuance of Common Stock), RPC's stockholders exchanged each share of RPC's common stock into .2331234 shares of the post-merger company and the exercise prices and stock prices were divided by .2331234 to reflect the post-merger equivalent stock prices and exercise prices. Therefore, all shares of common stock and exercise prices of common stock options and warrants are reported in these condensed consolidated financial statements on a post-merger basis.

The Company's independent registered public accounting firm has audited our consolidated financial statements for the years ended August 31, 2009 and 2008. The October 27, 2009 audit opinion included a paragraph indicating substantial doubt as to the Company's ability to continue as a going concern due to the fact that the Company is in the development stage and has not generated any revenue to date.

Management plans to seek additional debt and/or equity financing for the Company through private or public offerings or through a business combination or strategic partnership, but it cannot assure that such financing or transaction will be available on acceptable terms, or at all. The uncertainty of this situation raises substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the failure to continue as a going concern.

(b) Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, prepaid expenses, accounts payable, accrued liabilities and capital lease liability approximate fair value due to their short maturities.

(d) Segment Reporting

The Company has determined that it operates in two operating segments, preclinical development and clinical development. Operating segments are components of an enterprise for which separate financial information is available and are evaluated regularly by the Company in deciding how to allocate resources and in assessing performance. The Company's chief executive officer assesses the Company's performance and allocates its resources.

Below is a break-down of the Company's net loss and total assets by operating segment:

	For the three month period ended November 30,					
	2009			2008		
	Preclinical	Clinical	Total	Preclinical	Clinical	Total
Net loss	$ (949,726)	$ (1,988,946)	$ (2,938,672)	$ (796,343)	$ (1,662,655)	$ (2,458,998)
Total assets	498,524	8,032,386	8,530,910	1,463,910	6,921,564	8,385,474

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(f) Intangible Assets

Intangible assets include the intellectual property and other rights relating to DR Cysteamine, to the RAP technology and to the out-license and the rights to NGX 426 acquired in the 2009 Merger. The intangible assets related to DR Cysteamine and the RAP technology are amortized using the straight-line method over the estimated useful life of 20 years, which is the life of the intellectual property patents. The 20 year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to NGX 426, which has been classified as in-process research and development, will not be amortized until development is completed.

(g) Goodwill

Goodwill represents the excess of the value of the purchase consideration over the identifiable assets acquired in the 2009 Merger. Goodwill will be reviewed annually, or when an indication of impairment exists, to determine if any impairment analysis and resulting write-down in valuation is necessary.

(h) Fixed Assets

Fixed assets, which mainly consist of leasehold improvements, lab equipment, computer hardware and software and capital lease equipment, are stated at cost. Depreciation is computed using the straight-line method over the related estimated

useful lives, except for leasehold improvements and capital lease equipment, which are depreciated over the shorter of the useful life of the asset or the lease term. Significant additions and improvements that have useful lives estimated at greater than one year are capitalized, while repairs and maintenance are charged to expense as incurred.

(i) Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for indicators of possible impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the

impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or discounted estimates of future cash flows. The Company has not identified any such impairment losses to date.

(j) Income Taxes

Income taxes are recorded under the liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

(k) Research and Development

The Company is an early development stage company. Research and development costs are charged to expense as incurred. Research and development expenses include scientists' salaries, lab collaborations, preclinical studies, clinical trials, clinical trial materials, regulatory and clinical consultants, lab supplies, lab services, lab equipment maintenance and small equipment purchased to support the research laboratory, amortization of intangible assets and allocated executive, human resources and facilities expenses.

(l) In-Process Research and Development

Prior to September 1, 2009, the Company recorded in-process research and development expense for a product candidate acquisition where there is not more than one potential product or usage for the assets being acquired. Upon the adoption of the revised guidance on business combinations, effective September 1, 2009, the fair value of acquired in-process research and development is capitalized and tested for impairment at least annually. Upon completion of the research and development activities, the intangible asset is amortized into earnings over the related products useful life. The Company reviews each product candidate acquisition to determine the existence of in-process research and development.

(m) Net Loss per Share

Net loss per share is calculated by dividing net loss by the weighted average shares of common stock outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average shares of common stock outstanding and potential shares of common stock during the period. For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted net loss per share as their effect is anti-dilutive. Potentially dilutive securities include:

	November 30,	
	2009	2008
Warrants to purchase common stock	2,020,793	3,090,814
Options to purchase common stock	1,196,163	925,087
Total potentially dilutive securities	3,216,956	4,015,901

(n) Stock Option Plan

Effective September 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Accounting for Compensation Arrangements, ("ASC 718") (previously listed as SFAS No. 123 (revised 2004)), Share-Based Payment. in accounting for its 2006 Equity Incentive Plan, as amended.

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(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under ASC 718, compensation cost is measured at the grant date based on the fair value of the equity instruments awarded and is recognized over the period during which an employee is required to provide service in exchange for the award, or the requisite service period, which is usually the vesting period. The fair value of the equity award granted is estimated on the date of the grant. The Company previously applied Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures required by SFAS No. 123, Accounting for Stock-Based Compensation. The Company accounts for stock options issued to third parties, including consultants, in accordance with the provisions of the FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees, ("ASC 505-50") (previously listed as Emerging Issues Task Force ("EITF") Consensus No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services). See Note 8, Stock Option Plan, for further discussion of employee stock-based compensation.

(o) Recent Accounting Pronouncements

In September 2006, ASC Topic 820, Fair Value Measurements ("ASC 820") (previously listed as the FASB issued SFAS No. 157, Fair Value Measurements). ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of ASC 820 are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of ASC 820 are effective for fiscal years beginning after November 15, 2007; therefore, the Company adopted ASC 820 as of September 1, 2008 for financial assets and liabilities. In accordance with FASB Staff Position 157-2, Effective Date of ASC 820, the Company adopted the provisions of ASC 820 for its non-financial assets and non-financial liabilities on September 1, 2009 and has determined that it had no material impact on the Company's results for the three months ended November 30, 2009. See Note 5, Fair Value Measurements, regarding the disclosure of the Company's value of its cash equivalents.

In February 2007, the FASB issued ASC Topic 825, Financial Instruments, ("ASC 825") (previously SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115), which permits the measurement of many financial instruments and certain other asset and liabilities at fair value on an instrument-by-instrument basis (the fair value option). The guidance is applicable for fiscal years beginning after November 15, 2007; therefore, the Company adopted ASC 825 as of September 1, 2008. The Company has determined that ASC 825 had no material impact on its financial results for the three months ended November 30, 2009.

In June 2007, the EITF reached a consensus on ASC Topic 730, Research and Development, ("ASC 730") (previously EITF No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities). ASC 730 specifies the timing of expense recognition for non-refundable advance payments for goods or services that will be used or rendered for research and development activities. ASC 730 was effective for fiscal years beginning after December 15, 2007, and early adoption is not permitted; therefore, the Company adopted ASC 730 as of September 1, 2008. The Company has determined that ASC 730 had no material

impact on its financial results for the three months ended November 30, 2009.

In December 2007, the EITF reached a consensus on ASC Topic 808, Collaborative Agreement, ("ASC 808") (previously EITF 07-01, Accounting for Collaborative Arrangements). ASC 808 discusses the appropriate income statement presentation and classification for the activities and payments between the participants in arrangements related to the development and commercialization of intellectual property. The sufficiency of disclosure related to these arrangements is also specified. ASC 808 is effective for fiscal years beginning after December 15, 2008. As a result, ASC 808 is effective for the Company as of September 1, 2009. Based upon the nature of the Company's business, ASC 808 could have a material impact on its financial position and consolidated results of operations in future years, but had no material impact for the three months ended November 30, 2009.

In December 2007, FASB issued ASC Topic 805, Business Combinations, ("ASC 805") (previously SFAS 141(R) and FASB ASC Topic 810, Consolidation ("ASC 810") (previously SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51). These statements will significantly change the financial accounting and reporting of business combination transactions and non-controlling (or minority) interests in consolidated financial statements. ASC 805 requires companies to: (i) recognize, with certain exceptions, 100% of the fair values of assets acquired, liabilities assumed, and non-controlling interests in acquisitions of less than a 100% controlling interest when the acquisition constitutes a change in control of the acquired entity; (ii) measure acquirer shares issued in consideration for a business combination at fair value on the

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acquisition date; (iii) recognize contingent consideration arrangements at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings; (iv) with certain exceptions, recognize pre-acquisition loss and gain contingencies at their acquisition-date fair values; (v) capitalize in-process research and development ("IPR&D") assets acquired; (vi) expense, as incurred, acquisition-related transaction costs; (vii) capitalize acquisition-related restructuring costs only if the criteria in ASC 420, Exit and Disposal Cost Obligations, (previously SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities), are met as of the acquisition date; and (viii) recognize changes that result from a business combination transaction in an acquirer's existing income tax valuation allowances and tax uncertainty accruals as adjustments to income tax expense. ASC 805 is required to be adopted concurrently with ASC 810 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (the Company's fiscal 2010). Early adoption of these statements is prohibited. The Company believes the adoption of these statements will have a material impact on significant acquisitions completed after September 1, 2009. See Note 9 which reflects the accounting treatment of our 2009 Merger utilizing these provisions.

In March 2008, the FASB issued ASC Topic 815, Derivatives and Hedging, ("ASC 815") (previously SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities). This statement will require enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted ASC 815 on December 1, 2008 and has determined that ASC 815 had no material impact on its financial results for the three months ended November 30, 2009.

In May 2008, the FASB released ASC Topic 470, Debt, ("ASC 470") (previously FASB Staff Position ("FSP") APB 14-1 Accounting For Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) that alters the accounting treatment for convertible debt instruments that allow for either mandatory or optional cash settlements. ASC 470 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Furthermore, it would require recognizing interest expense in prior periods pursuant to retrospective accounting treatment. FSP ASC 470 is effective for financial statements issued for fiscal years beginning after December 15, 2008; therefore, the Company adopted ASC 470 as of September 1, 2009. The Company has determined that ASC 470 had no material impact on its condensed consolidated financial statements for the three months ended November 30, 2009.

In June 2008, the FASB issued FASB ASC Topic 815, Derivatives and Hedging, ("ASC 815") (previously EITF 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock). ASC 815 requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument's contingent exercise provisions and settlement provisions. Instruments not indexed to their own stock fail to meet the scope exception of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, paragraph 11(a), and should be classified as a liability and marked-to-market. The statement is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and is to be applied to outstanding instruments upon adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to the opening balance of retained earnings. The Company adopted ASC 815 as of

September 1, 2009 and has determined that ASC 815 had no material impact on its condensed consolidated financial statements for the three months ended November 30, 2009.

In April 2008, the FASB issued ASC Topic 350, Intangibles – Goodwill and Other, ("ASC 350") (previously FSP SFAS No. 142-3, Determination of the Useful Life of Intangible Assets). ASC 350 provides guidance with respect to estimating the useful lives of recognized intangible assets acquired on or after the effective date and requires additional disclosure related to the renewal or extension of the terms of recognized intangible assets. ASC 350 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company adopted ASC 350 as of September 1, 2009 and has determined that ASC 350 had no material impact on the Company's condensed consolidated financial statements for the three months ended November 30, 2009.

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In May 2009, the FASB issued ASC Topic 855, Subsequent Events, ("ASC 855") (previously SFAS No. 165, Subsequent Events). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 defines the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, and the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. ASC 855 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted ASC 855 as of August 31, 2009 and anticipates that the adoption will impact the accounting and disclosure of future transactions. The Company's management has evaluated and disclosed subsequent events from the balance sheet date of November 30, 2009 through January 13, 2010, the day before the date that these condensed consolidated financial statements were included in the Company's Quarterly Report on Form 10-Q and filed with the SEC.

ASC Topic 825, Financial Instruments, ("ASC 825") (previously FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments), to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This ASC 825 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The adoption of ASC 825 did not have a material impact on the Company's condensed consolidated financial statements for the three months ended November 30, 2009.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), ("SFAS 167"), which has not yet been codified in the ASC. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This statement is effective for fiscal years beginning after November 15, 2009, and for interim periods within that first annual reporting period. The Company is currently evaluating the impact of this standard, however, it does not expect SFAS 167 will have a material impact on its condensed consolidated financial statements.

In June 2009, the FASB issued ASC Topic 105, Generally Accepted Accounting Standards, ("ASC 105") (previously SFAS No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162), (the "Codification"). The Codification, which was launched on July 1, 2009, became the single source of authoritative nongovernmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), EITF and related literature. The Codification eliminates the GAAP hierarchy contained in ASC 105 and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105 as of September 1, 2009 however, references to both current GAAP and the Codification are included in this filing. The Company has determined that this provision had no material impact on its condensed consolidated financial statements for the three months ended November 30, 2009.

(3) INTANGIBLE ASSETS AND GOODWILL

On January 27, 2006, BioMarin Pharmaceutical Inc. (“BioMarin”) assigned the intellectual property and other rights relating to the RAP technology to the Company. As consideration for the assignment of the RAP technology, BioMarin will receive milestone payments based on certain financing and regulatory triggering events. No other consideration was paid for this assignment. The Company has recorded $150,000 of intangible assets on the consolidated balance sheets as of November 30, 2009 and August 31, 2009 based on the estimated fair value of its agreement with BioMarin.

On December 14, 2007, the Company acquired the intellectual property and other rights to develop DR Cysteamine to treat various indications from the University of California at San Diego (“UCSD”) by way of a merger with Encode Pharmaceuticals, Inc. (“Encode”), a privately held research and development company, which held the intellectual property license with UCSD.

Intangible assets recorded as a result of the 2009 merger were approximately $1.1 million as discussed in Note 9 below.

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The intangible assets, recorded at approximately $2.6 million acquired in the merger with Encode, were primarily based on the value of the Company's common stock and warrants issued to the Encode stockholders:

Intangible asset (IP license) related to the Encode merger, gross	$	2,620,000
Intangible asset related to NeuroTransTM purchase from BioMarin, gross		150,000
Intangible assets (out-license) related to the 2009 Merger, gross		240,000
In-process research and development (IP license) related to the 2009 Merger, gross		900,000
Total gross intangible assets		3,910,000
Less accumulated amortization		(282,333)
Intangible assets, net	$	3,627,667

The intangible assets related to DR Cysteamine and NeuroTransTM are being amortized monthly over 20 years, which are the life of the intellectual property patents and the estimated useful life. The 20 year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to NGX 426 will not be amortized until the product is developed. During the three months ended November 30, 2009 and 2008 and the cumulative period from September 8, 2005 (inception) to November 30, 2009, the Company amortized $37,124, $34,624, and $282,332, respectively, of intangible assets to research and development expense.

The following table summarizes the actual and estimated amortization expense for our intangible assets for the periods indicated:

Amortization period		Amortization expense
September 8, 2005 (inception) to August 31, 2006 – actual	$	4,375
Fiscal year ending August 31, 2007 – actual		7,500
Fiscal year ending August 31, 2008 – actual		94,833
Fiscal year ending August 31, 2009 – actual		138,500
Fiscal year ending August 31, 2010 – estimate		141,000
Fiscal year ending August 31, 2011 – estimate		153,500
Fiscal year ending August 31, 2012 – estimate		153,500
Fiscal year ending August 31, 2013 – estimate		153,500
Fiscal year ending August 31, 2014 – estimate		153,500
Fiscal year ending August 31, 2015 – estimate		153,500

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(4) FIXED ASSETS

Fixed assets consisted of:

Category	November 30, 2009	August 31, 2009	Estimated useful lives
Leasehold improvements	$ 113,422	$ 113,422	Shorter of life of asset or lease term
Office furniture	3,188	3,188	7 years
Laboratory equipment	277,303	277,303	5 years
Computer hardware and software	83,740	80,437	3 years
Capital lease equipment	14,006	14,006	Shorter of life of asset or lease term
Total at cost	491,659	488,356	
Less: accumulated depreciation	(360,791)	(343,621)	
Total fixed assets, net	$ 130,868	$ 144,735	

Depreciation expense for the three months ended November 30, 2009 and 2008 and the cumulative period from September 8, 2005 (inception) to November 30, 2009 was $17,169, $21,996 and $368,109, respectively. Accumulated depreciation on capital lease equipment was $5,028 and $3,951 as of November 30, 2009 and August 31, 2009, respectively.

(5) FAIR VALUE MEASUREMENT

The Company uses a fair-value approach to value certain assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level one — Quoted market prices in active markets for identical assets or liabilities;
- Level two — Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect

those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. Assets and liabilities measured at fair value on a recurring basis at November 30, 2009 and August 31, 2009 are summarized as follows:

Assets	Level 1	Level 2	Level 3	November 30, 2009
Fair value of cash equivalents	$1,027,231	$ —	$ —	$1,027,231
Total	$1,027,231	$ —	$ —	$1,027,231

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Assets	Level 1	Level 2	Level 3	August 31, 2009
Fair value of cash equivalents	$ 3,515,353	$ —	$ —	$ 3,515,353
Total	$ 3,515,353	$ —	$ —	$ 3,513,353

Cash equivalents represent the fair value of our investment in two money market accounts as of November 30, 2009 and August 31, 2009

(6) ACCRUED LIABILITIES

Accrued liabilities consisted of:

	November 30, 2009	August 31, 2009
Salaries and benefits and other obligations related to 2009 Merger	$ 429,457	$ —
Legal fees primarily due to 2009 Merger	227,731	195,552
Accrued vacation	52,786	38,109
Patent costs	39,551	10,500
Salaries and wages	34,397	57,351
Auditing and tax preparation fees	33,710	19,720
Consulting — research and development	26,650	21,000
2009 Merger joint proxy/prospectus	—	109,011
Total accrued liabilities	$ 844,282	$ 451,243

(7) IN-PROCESS RESEARCH AND DEVELOPMENT

On October 17, 2007, the Company purchased certain assets of Convivia, Inc. (“Convivia”) including intellectual property, know-how and research reports related to a product candidate targeting liver aldehyde dehydrogenase (“ALDH2”) deficiency, a genetic metabolic disorder. The Company issued an aggregate of 101,991 shares of its restricted, unregistered common stock to the seller and other third parties in settlement of the asset purchase. Pursuant to ASC Topic 730, Research and Development, (previously Financial Accounting Standard (“FAS”) 2 Paragraph 11(c), Intangibles Purchased From Others), the Company has expensed the value of the common stock issued in connection with this asset purchase as in-process research and development expense. The amount expensed was based upon the closing price of Raptor’s common stock on the date of the closing of the asset purchase transaction of $2.359 per share multiplied by the aggregate number of shares of Raptor common stock issued or 101,991 for a total expense of $240,625 recorded on Raptor’s consolidated statement of operations during the year ended August 31, 2008.

(8) STOCK OPTION PLAN

Effective September 1, 2006, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with ASC 718, as interpreted by ASC 718. Prior to September 1, 2006, the Company accounted for stock options according to the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under ASC 718, and consequently has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options now includes: (1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to September 1, 2006, based on the grant date value estimated in accordance with the original provisions of ASC 718; and (2) quarterly amortization related to all stock option

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awards granted subsequent to September 1, 2006, based on the grant date fair value estimated in accordance with the provisions of ASC 718. In addition, the Company records consulting expense over the vesting period of stock options granted to consultants. The compensation expense for stock-based compensation awards includes an estimate for forfeitures and is recognized over the requisite service period of the options, which is typically the period over which the options vest, using the straight-line method. Employee stock-based compensation expense for the three months ended November 30, 2009 and 2008 and for the cumulative period from September 8, 2005 (inception) to November 30, 2009 was $25,803, $116,518, and $1,240,830 of which cumulatively $1,051,583 was included in general and administrative expense and $189,247 was included in research and development expense. No employee stock compensation costs were recognized for the period from September 8, 2005 (inception) to August 31, 2006, which was prior to the Company's adoption of ASC 718.

Stock-based compensation expense was based on the Black-Scholes option-pricing model assuming the following:

Period*	Risk-free interest rate	Expected life of stock option	Annual volatility	Annual turnover rate
September 8, 2005 (inception) to August 31, 2006**	5%	10 years	100%	0%
Quarter ended November 30, 2006	5%	8 years	100%	10%
Quarter ended February 28, 2007	5%	8 years	100%	10%
Quarter ended May 31, 2007	5%	8 years	100%	10%
Quarter ended August 31, 2007	4%	8 years	100%	10%
Quarter ended November 30, 2007	3.75%	8 years	109%	10%
Quarter ended February 29, 2008	2%	8 years	119%	10%
Quarter ended May 31, 2008	2%	8 years	121%	10%
Quarter ended August 31, 2008	2.5%	8 years	128%	10%

Quarter ended November 30, 2008	1.5%	7 years	170%	10%
Quarter ended February 28, 2009	2.0%	7 years	220%	10%
Quarter ended May 31, 2009	2.6%	7 years	233%	10%
Quarter ended August 31, 2009	3.2%	7 years	240%	10%
Quarter ended November 30, 2009	3.0%	7 years	245%	10%

* Dividend rate is 0% for all period presented.

** Stock-based compensation expense was recorded on the consolidated statements of operations commencing on the effective date of ASC 718, September 1, 2006. Prior to September 1, 2006, stock based compensation was reflected only in the footnotes to the consolidated statements of operations, with no effect on the consolidated statements of operations, per the guidelines of APB No. 25. Consultant stock-based compensation expense has been recorded on the consolidated statements of operations since inception.

If factors change and different assumptions are employed in the application of ASC 718, the compensation expense recorded in future periods may differ significantly from what was recorded in the current period.

The Company recognizes as an expense the fair value of options granted to persons who are neither employees nor directors. The fair value of expensed options was based on the Black-Scholes option-pricing model assuming the same factors shown in the stock-based compensation expense table above. Stock-based compensation expense for consultants for the three months ended November 30, 2009 and 2008 and for the cumulative period from September 8, 2005 (inception) to November 30,

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2009, were $65,200, $12,993 and $472,813, respectively, of which cumulatively $113,439 was included in general and administrative expense and $359,374 was included in research and development expense.

A summary of the activity in the 2006 Equity Compensation Plan, as amended and the Company's other stock option plans, is as follows:

	Option shares	Weighted average exercise price	Exercisable	Weighted average fair value of options granted
Outstanding at September 8, 2005	—	—	—	—
Granted	580,108	$ 2.64	—	$ 2.47
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2006	580,108	$ 2.64	4,010	$ 2.47
Granted	107,452	$ 2.56	—	$ 2.31
Exercised	(3,381)	$ 2.57	—	$ 2.40
Canceled	—	—	—	
Outstanding at August 31, 2007	684,179	$ 2.63	273,236	$ 2.45
Granted	223,439	$ 2.27	—	$ 2.21
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2008	907,618	$ 2.54	600,837	$ 2.39
Granted	81,595	$ 1.13	—	$ 1.04
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2009	989,213	$ 2.42	826,303	$ 2.28
Granted	50,590	$ 3.43	34,959	$ 2.26
Assumed in the 2009 Merger	161,044	$ 114.12	158,475	—

Exercised	(2,115)	$	2.24	—	—
Canceled	(2,569)	$	819.17	—	—
Outstanding at November 30, 2009	1,196,163	$	17.26	1,109,737	$ 2.39

The weighted average intrinsic values of stock options outstanding and expected to vest and stock options exercisable as of November 30, 2009 and 2008 were $906,974, $692,785, zero and zero respectively.

There were 1,208,104 options available for grant under the 2006 Equity Compensation Plan, as amended, and under the stock option plans assumed in the 2009 Merger as of November 30, 2009. As of November 30, 2009, the options outstanding consisted of the following:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding (#)	Weighted average remaining contractual life (yrs.)	Weighted average exercise price ($)	Number of options exercisable (#)	Weighted average exercise price ($)
$0 to $1.00	34,969	9.37	.85	5,099	0.85
$1.01 to $2.00	78,684	8.93	1.56	38,427	1.55
$2.01 to $3.00	873,445	6.95	2.56	803,499	2.58
$3.01 to $4.00	94,146	9.87	3.52	59,178	3.84
$4.01 to $5.00	62,104	9.87	4.57	58,604	4.59
$5.01 to $1,564	52,815	5.00	333.83	52,815	333.83
	1,196,163	7.32	17.26	1,017,622	19.92

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At November 30, 2009, the total unrecognized compensation cost was approximately $260,000. The weighted average period over which it is expected to be recognized is 3.25 years.

(9) ISSUANCE OF COMMON STOCK

ISSUANCE OF COMMON STOCK PURSUANT TO COMMON STOCK WARRANT EXERCISES AND STOCK OPTION EXERCISES

During the three month period ended November 30, 2009, the Company received $56,018 from the exercise of a warrant issued to a placement agent in the May/June 2008 private placement in exchange for the issuance of 23,744 shares of the Company's common stock and the Company issued 7,680 shares of its common stock resulting from a cashless exercise of a warrant issued in 2007 in connection with the purchase of DR Cysteamine. During cumulative period from September 8, 2005 (inception) through November 30, 2009, the Company received $6.566 million from the exercise of warrants in exchange for the issuance of an aggregate of 3,576,454 shares.

During the three month period ended November 30, 2009, the Company received $4,750 from the exercise of stock options in exchange for 2,115 shares of the Company's common stock. For the cumulative period from September 8, 2005 (inception) through November 30, 2009, the Company received $13,898 from the exercise of stock options resulting in the issuance of 5,495 shares of common stock. Total common stock outstanding as of November 30, 2009 was 18,831,957 shares.

ISSUANCE OF COMMON STOCK PURSUANT TO AN ASSET PURCHASE AGREEMENT WITH CONVIVIA, INC.

On October 18, 2007, the Company purchased certain assets of Convivia, Inc. ("Convivia") including intellectual property, know-how and research reports related to a product candidate targeting liver aldehyde dehydrogenase ("ALDH2") deficiency, a genetic metabolic disorder. The Company hired Convivia's chief executive officer and founder, Thomas E. (Ted) Daley, as President of its clinical division. In exchange for the assets related to the ALDH2 deficiency program, the Company issued to Convivia 46,625 shares of its restricted, unregistered common stock, an additional 46,625 shares of its restricted, unregistered common stock to a third party in settlement of a convertible loan between the third party and Convivia, and another 8,742 shares of restricted, unregistered common stock in settlement of other obligations of Convivia. Mr. Daley, as the former sole stockholder of Convivia (now dissolved), may earn additional shares of the Company based on certain triggering events or milestones related to the development of Convivia assets. In addition, Mr. Daley may earn cash bonuses based on the same triggering events pursuant to his employment agreement. In January 2008, Mr. Daley earned a $30,000 cash bonus pursuant to his employment agreement for executing the Patheon formulation agreement for manufacturing ConviviaTM. In March 2008, Mr. Daley earned a $10,000 cash bonus pursuant to his employment agreement and was issued 23,312 shares of valued at $56,000 based on the execution of an agreement to supply the Company with the active pharmaceutical ingredient for ConviviaTM pursuant to the asset purchase agreement. In October 2008, Mr. Daley was issued 23,312 shares of restricted Raptor common stock valued at $27,000 and earned a $30,000 cash bonus (pursuant to Mr. Daley's

employment agreement) pursuant to the fulfillment of a clinical milestone. Pursuant to ASC 730, the accounting guidelines for expensing research and development costs, the Company has expensed the value of the stock issued in connection with this asset purchase (except for milestone bonuses, which are expensed as compensation expense) as in-process research and development expense in the amount of $240,625 on its condensed consolidated statement of operations for the year ended August 31, 2008.

MERGER OF RAPTOR'S CLINICAL DEVELOPMENT SUBSIDIARY AND ENCODE PHARMACEUTICALS, INC.

On December 14, 2007, the Company entered into a Merger Agreement (the "Encode Merger Agreement"), dated as of the same date, by and between the Company, its clinical development subsidiary and Encode Pharmaceuticals, Inc. ("Encode"), a privately held development stage company. Pursuant to the Encode Merger Agreement, a certificate of merger was filed with the Secretary of State of the State of Delaware and Encode was merged with and into the Company's clinical development subsidiary. The existence of Encode ceased as of the date of the Encode Merger Agreement. Pursuant to the Encode Merger Agreement and the certificate of merger, the Company's clinical development subsidiary, as the surviving corporation, continued as a wholly-owned subsidiary of the Company. Under the terms of and subject to the conditions set forth in the Encode Merger Agreement, the Company issued 802,946 shares of restricted, unregistered shares of the Company's common stock, par value $.001 per share (the "Common Stock") to the stockholders of Encode (the "Encode Stockholders"), options ("Company Options") to purchase

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83,325 shares of Common Stock to the optionholders of Encode (the "Encode Optionholders"), and warrants ("Company Warrants") to purchase 256,034 restricted, unregistered shares of Common Stock to the warrantholders of Encode (the "Encode Warrantholders", and together with the Encode Stockholders and Encode Optionholders, the "Encode Securityholders"), as of the date of such Agreement. Such Common Stock, Company Options to purchase Common Stock, and Company Warrants to purchase Common Stock combine for an aggregate amount of 1,142,305 shares of Common Stock issuable to the Encode Securityholders as of the closing of the merger with Encode. The purchase price was valued at $2.6 million, which is reflected as intangible assets on the Company's consolidated balance sheet as of August 31, 2008, primarily based on the value the Company's common stock and warrants issued to Encode stockholders. The Encode Securityholders are eligible to receive up to an additional 559,496 shares of Common Stock, Company Options and Company Warrants to purchase Common Stock in the aggregate based on certain triggering events related to regulatory approval of DR Cysteamine, an Encode product program described below, if completed within the five year anniversary date of the Encode Merger Agreement. The Company recorded this transaction as an asset purchase rather than a business combination, as Encode had not commenced planned principle operations, such as generating revenues from its drug product candidate.

As a result of the merger with Encode, the Company received the exclusive worldwide license to DR Cysteamine ("License Agreement"), developed by clinical scientists at the UCSD, School of Medicine. DR Cysteamine is a proprietary enterically coated formulation of cysteamine bitartrate, a cystine depleting agent currently approved by the U.S. Food and Drug Administration ("FDA"). Cysteamine bitartrate is prescribed for the management of the genetic disorder known as nephropathic cystinosis ("cystinosis"), a lysosomal storage disease. The active ingredient in DR Cysteamine has also demonstrated potential in studies as a treatment for other metabolic and neurodegenerative diseases, such as Huntington's Disease and Non-alcoholic steatohepatitis ("NASH").

In consideration of the grant of the license, the Company will be obligated to pay an annual maintenance fee until it begins commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, the Company will be obligated to pay during the life of the License Agreement: milestone payments ranging from $20,000 to $750,000 for orphan indications and from $80,000 to $1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year the Company begins commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, the Company is obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. To the extent that the Company fails to perform any of the obligations, UCSD may terminate the license or otherwise cause the license to become non-exclusive. To-date, Raptor has paid $270,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis and in NASH.

ISSUANCES OF COMMON STOCK AND WARRANTS IN CONNECTION WITH THE SALE OF UNITS IN A PRIVATE PLACEMENT

During the period from May 21, 2008 through June 27, 2008 Raptor entered into a Securities Purchase Agreement, as Amended (the "Purchase Agreement"), with 11 investors for the private placement of units of the Company, each unit comprised of one share of Raptor's Common Stock and one warrant to purchase one half of one share of Raptor's

Common Stock, at a purchase price of $2.14 per unit. Pursuant to the Purchase Agreement, the Company sold an aggregate of 4,662,468 shares of Common Stock for aggregate gross proceeds of $10 million and issued to the investors warrants, exercisable for two years from the initial closing, which entitle the investors to purchase up to an aggregate of 2,331,234 shares of Common Stock of the Company and have an exercise price of either $3.22 or $3.86 per share, depending on when such warrants are exercised, if at all, and were valued at approximately $3 million (using the following Black -Scholes pricing model assumptions: risk-free interest rate 2%; expected term 2 years and annual volatility 121.45%).

In connection with the May / June 2008 private placement, the Company issued warrants and a cash fee to placement agents to compensate them for placing investors into the financing. Placement agents were issued warrants exercisable for 7% of Common Stock issued and issuable under the warrants issued to investors as part of the financing units and a cash fee based upon the proceeds of the sale of the units of the private placement. In connection with the sale of units, the Company issued placement agent warrants to purchase 489,559 shares of Raptor’s Common Stock at an exercise price of $2.36 per share for a five year term (valued at approximately $960,000 using the following Black -Scholes pricing model assumptions: risk-free interest rate 2%; expected term 5 years and annual volatility 121.45%) and cash fees to placement agents totaling $700,000. Of the placement agents compensated, Limetree Capital was issued warrants to purchase 438,890 shares of Raptor’s Common Stock and cash commission of $627,550. One of our Board members serves on the board of Limetree Capital.

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On April 29, 2009, in order to reflect current market prices, Raptor notified the holders of warrants purchased in the May/June 2008 private placement that the Company was offering, in exchange for such warrants, new warrants to purchase its common stock at an exercise price of $1.29 per share, but only to the extent such exchange of the original warrants and exercise of the new warrants, including the delivery of the exercise price, occurred on or prior to July 17, 2009. The new warrants were valued at approximately $2.3 million based on the following Black -Scholes pricing model assumptions: risk-free interest rate 0.55%; expected term 1 year and annual volatility 231.97%. The warrants that were not exchanged prior to or on July 17, 2009 retained their original exercise prices of $3.86 per share and original expiration date of May 21, 2010. The Company received $2,614,500 of proceeds from warrant exercises that resulted in the issuance of 2,031,670 shares of Raptor's common stock pursuant to the exchange described above.

On August 21, 2009, Raptor entered into a securities purchase agreement, with four investors for the private placement of units of the Company at a purchase price of $1.37 per unit, each unit comprised of one share of Raptor's common stock, par value $0.001 per share and one warrant to purchase one half of one share of Raptor's common stock. Pursuant to the securities purchase agreement, the Company sold an aggregate of 1,738,226 units to the investors for aggregate gross proceeds of $2,386,000. The 1,738,226 units comprised of an aggregate of 1,738,226 shares of common stock and warrants to purchase up to 869,113 shares of Raptor's common stock valued at $1.0 million (using the following Black -Scholes pricing model assumptions: risk-free interest rate 1.11%; expected term 2 years and annual volatility 240.29%). The warrants, exercisable for two years from the closing, entitle the investors to purchase, in the aggregate, up to 869,113 shares of Raptor's common stock and have an exercise price of either $2.57 until the first anniversary of issuance or $3.22 per share after the first anniversary of issuance.

In connection with the August 2009 private placement, the Company issued warrants and a cash fee to Limetree Capital as its sole placement agent to compensate them for placing investors into the financing. Limetree Capital was issued warrants exercisable for 7% of common stock issued and issuable under the warrants issued to investors as part of the financing units and a 3.5% cash fee based upon the proceeds of the sale of the units of the August 2009 private placement. Limetree Capital was issued a five-year warrant to purchase 129,733 shares of Raptor's Common Stock at an exercise price of $1.50 per share (valued at approximately $171,000 using the following Black -Scholes pricing model assumptions: risk-free interest rate 2.58%; expected term 5 years and annual volatility 240.29%) and cash commission of $59,360.

2009 MERGER AND NASDAQ LISTING
On September 29, 2009, the Company, formerly known as TorreyPines Therapeutics, Inc. ("TorreyPines") and Raptor Pharmaceuticals Corp. ("RPC") completed a reverse merger. The Company changed its name to "Raptor Pharmaceutical Corp." and commenced trading on September 30, 2009 on the NASDAQ Capital Market under the ticker symbol "RPTP."

In connection with the exchange of shares in the merger, immediately after the effective time of such merger, RPC and the Company's stockholders owned 95% and 5% of the outstanding shares of the combined company, respectively. RPC stockholders received (as of immediately prior to such merger) 17,881,300 shares of the combined company's common stock in exchange for the 76,703,147 shares of RPC's common stock outstanding immediately prior to the closing of the merger. On September 29, 2009, immediately prior to the effective time of such merger the Company's board of directors, with the consent of RPC's board of directors, acted to effect a reverse stock split of the issued and

outstanding shares of the Company's common stock such that every 17 shares of the Company's common stock outstanding immediately prior to the effective time of the merger would represent one share of the Company's common stock. Due to the reverse stock split implemented by the Company, the 15,999,058 shares of the Company's common stock outstanding immediately prior to the closing of the merger became 940,863 shares of the combined company's common stock.

In connection with the merger and subject to the same conversion factor as the RPC common stock (.2331234), the combined company assumed all of RPC's stock options and warrants outstanding at the time of the merger. The combined company also retained and/or retained the Company's stock options and warrants outstanding at the merger, subject to the same adjustment factor as described above to give effect to the 1 for 17 reverse split.

The combined company is headquartered in Novato, California and is managed by Christopher M. Starr, Ph.D., as Chief Executive Officer and director, Todd C. Zankel, Ph.D., as Chief Scientific Officer, Kim R. Tsuchimoto, C.P.A., as Chief Financial Officer, Ted Daley, as President of the clinical division and Patrice P. Rioux., M.D., Ph.D., as Chief Medical Officer of the clinical division.

There were a number of factors on which RPC's board of directors relied in approving the merger, including, having access to an expanded pipeline of product candidates and having development capabilities across a wider spectrum of diseases and markets. Another primary reason for RPC's board of directors' decision to merge with TorreyPines was the benefit anticipated

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from the additional liquidity expected from having a NASDAQ trading market on which the combined company's common stock could be listed. This liquidity benefit is the primary factor behind the goodwill recognized in the transaction (see below). The goodwill has been assigned to the Company's clinical segment and is expected to be fully deductible for tax purposes. Below is a breakdown of the assets acquired and liabilities assumed in the merger described herein (in millions, except for %):

Asset Allocation	Value (millions)	%
Cash and equivalents	$ 0.58	13
Other current assets	0.10	2
Accrued liabilities	(0.68)	(15)
Intangible assets:		
In-process research & development	0.90	20
Licenses	0.24	6
Total identifiable assets	1.14	26
Plus Goodwill	3.28	74
Total net assets acquired	$ 4.42	100

Acquisition costs incurred by the Company related to the merger were approximately $0.6 million and were expensed as incurred. If the reverse merger had occurred on September 1, 2008, the Company's revenues would have increased by approximately $1.5 million from fees earned by TorreyPines from the sale one of its programs in the quarter ended December 31, 2008 for total pro forma revenues of $1.5 million for the three months ended November 30, 2008. Net loss would have increased by approximately $2.5 million due to an increase of revenues of $1.5 million described above offset by $3.1 million of loss on impairment of purchased patents recognized by TorreyPines during the period plus $0.9 million in transaction costs and costs associated with obligations owed to the TorreyPines employees for a pro forma net loss of $4.8 million (or $(0.32) per share) for the three month period ended November 30, 2008. If the reverse merger had occurred on September 1, 2009, the Company's revenues would have remained zero. Net loss would have increased by approximately $0.3 million due to the transaction costs which were accrued during our year ended August 31, 2009, for a pro forma net loss of $3.2 million or $(0.17) per share.

The following is a summary of common stock outstanding as of November 30, 2009:

Transaction	Date	Common Stock Issued
Founders' shares	Sept. 2005	1,398,742
Seed round	Feb. 2006	466,247
PIPE concurrent with reverse merger	May 2006	1,942,695
Shares issued in connection with reverse merger	May 2006	3,100,541

Warrant exercises	Jan. – Nov. 2007	1,513,359
Stock option exercises	Mar. 2007	3,380
Loan finder's fee	Sept. 2007	46,625
Convivia asset purchase	Oct. 2007 – Nov. 2008	148,616
Encode merger DR Cysteamine asset purchase	Dec. 2007	802,946
Shares issued pursuant to consulting agreement	May 2008	2,040
PIPE — initial tranche	May 2008	1,030,405
PIPE — second tranche	May 2008	69,937
PIPE — third tranche	June 2008	3,562,126
Warrant exercises from warrant exchange	June/July 2009	2,031,670
PIPE	August 2009	1,738,226
Warrant exercises	September 2009	31,424
Shares issued in connection with reverse merger	September 2009	940,863
Stock option exercises	October 2009	2,115
Total shares of common stock outstanding		18,831,957

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(10) WARRANTS
The table reflects the number common stock warrants outstanding as of November 30, 2009:

	Number of shares exercisable	Exercise price	Expiration date
Summary of outstanding warrants:			
Issued in lieu of deferred legal fees	13,987	$ 2.57	2/13/2011
Issued in connection with Encode merger	233,309	$ 2.87	12/13/2015
Issued to PIPE investors in May / June 2008	299,564	$ 3.86	5/21/2010
Issued to placement agents in May / June 2008	465,816	$ 2.36	5/21/2013
Issued to PIPE investors in August 2009	869,113	$ 2.57/$3.22*	8/21/2011
Issued to placement agents in August 2009	129,733	$ 1.50	8/21/2014
TorreyPines warrants assumed in 2009 Merger	9,271	$ 87.71**	7/1/2010 to 9/26/2015

Total warrants outstanding	2,020,793	$	3.07**

* First year exercisable at $2.57; second year exercisable at $3.22

** Average exercise price

(11) COMMITMENTS AND CONTINGENCIES

CONTRACTUAL OBLIGATIONS WITH BIOMARIN

Pursuant to the terms of the asset purchase agreement the Company entered into with BioMarin Pharmaceutical Inc. ("BioMarin") for the purchase of intellectual property related to our receptor-associated protein ("RAP") based technology (including NeuroTrans™), we are obligated to make the following milestone payments to BioMarin upon the achievement of the following events:
$50,000 (paid by the Company in June 2006) within 30 days after Raptor receives total aggregate debt or equity financing of at least $2,500,000;
$100,000 (paid by the Company in June 2006) within 30 days after Raptor receives total aggregate debt or equity financing of at least $5,000,000;
$500,000 upon the Company's filing and acceptance of an investigational new drug application for a drug product candidate based on the NeuroTrans™ product candidate;
$2,500,000 upon the Company's successful completion of a Phase II human clinical trial for a drug product candidate based on the NeuroTrans™ product candidate;
$5,000,000 upon on the Company's successful completion of a Phase III human clinical trial for a drug product candidate based on the NeuroTrans™ product candidate;
$12,000,000 within 90 days of the Company's obtaining marketing approval from the FDA or other similar regulatory agencies for a drug product candidate based on the NeuroTrans™ product candidate;
$5,000,000 within 90 days of the Company's obtaining marketing approval from the FDA or other similar regulatory agencies for a second drug product candidate based on the NeuroTrans™ product candidate;
$5,000,000 within 60 days after the end of the first calendar year in which the Company's aggregated revenues derived from drug product candidates based on the NeuroTrans™ product candidate exceed $100,000,000; and
$20,000,000 within 60 days after the end of the first calendar year in which the Company's aggregated revenues derived from drug product candidates based on the NeuroTrans™ product candidate exceed $500,000,000.

In addition to these milestone payments, the Company is also obligated to pay BioMarin a royalty at a percentage of the Company's aggregated revenues derived from drug product candidates based on the NeuroTransTM product candidate. On June 9, 2006, the Company made a milestone payment in the amount of $150,000 to BioMarin because the Company raised $5,000,000 in its May 25, 2006 private placement financing. If the Company becomes insolvent or if the Company breaches its asset purchase agreement with BioMarin due to non-payment and the Company does not cure its non-payment within the stated cure period, all of the Company's rights to the RAP technology (including NeuroTransTM) will revert back to BioMarin.

CONTRACTUAL OBLIGATIONS WITH THOMAS E. DALEY (ASSIGNEE OF THE DISSOLVED CONVIVIA, INC.)

Pursuant to the terms of the asset purchase agreement ("Asset Purchase Agreement"), the Company entered into with Convivia, Inc. and Thomas E. Daley for the purchase of intellectual property related to its 4-MP product candidate program, Mr. Daley will be entitled to receive the following, if at all, in such amounts and only to the extent certain future milestones are accomplished by the Company (or any of its subsidiaries thereof), as set forth below:

23,312 shares of Raptor's restricted, unregistered Common Stock within fifteen (15) days after the Company enters into a manufacturing license or other agreement to produce any product that is predominantly based upon or derived from any assets purchased from Convivia ("Purchased Assets") in quantity ("Product") if such license agreement is executed within one (1) year of execution of the Asset Purchase Agreement or, if thereafter, 11,656 shares of Raptor's restricted, unregistered Common Stock. Should the Company obtain a second such license or agreement for a Product, Mr. Daley will be entitled to receive 11,656 shares of the Company's restricted, unregistered Common Stock within 30 days of execution of such second license or other agreement. On March 31, 2008, the Company issued 23,312 shares of Raptor's Common Stock valued at $56,000 to Mr. Daley pursuant to this milestone reflecting the execution of an agreement to supply the active pharmaceutical ingredient for ConviviaTM, combined with the execution of a formulation agreement to produce the oral formulation of ConviviaTM.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after it receives its first patent allowance on any patents which constitute part of the Purchased Assets in any one of certain predetermined countries ("Major Market").

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company receives its second patent allowance on any patents which constitute part of the Purchased Assets different from the patent referenced in the immediately preceding bullet point above in a Major Market.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days of completing predetermined benchmarks in a Major Market by the Company or its licensee of the first phase II human clinical trial for a Product ("Successful Completion") if such Successful Completion occurs within one (1) year of execution of the Asset Purchase Agreement or, if thereafter, 11,656 shares of the Company's restricted, unregistered Common Stock within thirty (30) days of such Successful Completion. In October 2008, the Company issued 23,312 shares of Raptor's Common Stock valued at $27,000 and a $30,000 cash bonus (pursuant to Mr. Daley's employment agreement) to Mr. Daley pursuant to the fulfillment of this milestone.

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days of a Successful Completion in a Major Market by the Company's or its licensee of the second phase II human clinical trial for a Product (other than the Product for which a distribution is made under the immediately preceding bullet point above).

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee applies for approval to market and sell a Product in a Major Market for the indications for which approval is sought ("Marketing Approval").

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee applies for Marketing Approval in a Major Market (other than the Major Market for which a distribution is made under the immediately preceding bullet point above).

46,625 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee obtains the first Marketing Approval for a Product from the applicable regulatory agency in a Major Market.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee obtains Marketing Approval for a Product from the applicable regulatory agency in a Major Market (other than the Major Market for which a distribution is made under the immediately preceding bullet point above).

As discussed above, in aggregate, the Company has issued to Mr. Daley, 46,625 shares of Raptor's common stock valued at $83,000 and paid $30,000 in cash bonuses related to ConviviaTM milestones along with another $20,000 in cash bonuses related to employment milestones pursuant to Mr. Daley's employment agreement.

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CONTRACTUAL OBLIGATIONS WITH FORMER ENCODE STOCKHOLDERS AND UCSD RELATING TO THE ACQUISITION OF THE DR CYSTEAMINE LICENSE

As a result of the merger between our clinical subsidiary and Encode, as discussed in Note 9 above, the Encode Securityholders are eligible to receive up to an additional 559,496 shares of Raptor's common stock, Company Options and Company Warrants to purchase Raptor's common stock in the aggregate based on certain triggering events related to regulatory approval of DR Cysteamine, an Encode product program, if completed within the five year anniversary date of the merger agreement.

Also as a result of the merger, the Company will be obligated to pay an annual maintenance fee to UCSD for the exclusive license to develop DR Cysteamine for certain indications of $15,000 until it begins commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, the Company will be obligated to pay during the life of the License Agreement: milestone payments ranging from $20,000 to $750,000 for orphan indications and from $80,000 to $1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year we begin commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, the Company is obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. In addition, the Company is obligated to, among other things, secure $1 million in funding prior to December 18, 2008 (which the Company has fulfilled by raising $10 million in its May/June 2008 private placement) and annually spend at least $200,000 for the development of products (which, as of its fiscal year ended August 31, 2009, the Company has fulfilled by spending approximately $4.1 million on such programs) pursuant to the License Agreement. To-date, we have paid $270,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis and in NASH. To the extent that the Company fails to perform any of its obligations under the License Agreement, then UCSD may terminate the license or otherwise cause the license to become non-exclusive.

CONTRACTUAL OBLIGATIONS TO TPTX, INC. EMPLOYEES

Pursuant to the documents related to the 2009 Merger, including amended employment agreements with the TPTX, Inc. employees, who were former executives of TorreyPines prior to the merger, the Company is obligated to pay such former executives their salaries, benefits and other obligations through February 28, 2010. The remaining aggregate of the obligations as of November 30, 2009 are approximately $429,000.

OFFICE LEASES

In March 2006, the Company entered into a lease for the Company's executive offices and research laboratory in Novato, California. Base monthly payments were $5,206 per month subject to annual rent increase of between 3% to 5%, based on the Consumer Price Index ("CPI"). In March 2006, the Company paid $20,207 as a security deposit on

this lease, which expired in March 2009. Effective April 1, 2007, the Company leased additional office space adjoining the existing leased space, increasing our base rent to $9,764 per month without extending the term of the original lease. The original lease allows for one three-year extension at the market rate and up to $18,643 in reimbursement for tenant improvements. In June 2008, the Company's rent increased to $10,215 reflecting a CPI increase of 3% plus an increase in operating costs for the period from April 1, 2008 to March 31, 2009. In September 2008, the Company executed a lease addendum replacing the one three-year extension with two two-year extensions commencing on April 1, 2009 and renegotiated the first two-year extension base rent to $10,068 with an adjustment after the first year for CPI between 3% (minimum) and 5% (maximum). During the three month period ended November 30, 2009 and 2008 and the cumulative period from September 8, 2005 (inception) to November 30, 2009, the Company paid $34,597, $31,645 and $402,992, respectively, in rent.

The minimum future lease payments under this operating lease assuming a 3% CPI increase per year are as follows:

Period	Amount
Fiscal year ending August 31, 2010	$ 94,080
September 1, 2010 to March 31, 2011	74,133

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CAPITAL LEASE

In June 2006, the Company leased a photocopier machine for 36 months at $242 per month. There was no purchase option at the end of the lease. Based on the fair value and estimated useful life of the photocopier and the life of the lease and the photocopier, the Company has accounted for the lease as a capital lease. In September 2008, the Company replaced the originally leased photocopier with a new photocopier which is subject to a 39-month lease at $469 per month. There were no penalties imposed for cancelling the original lease.

The future lease payments under the capital lease are as follows:

Period		Amount
Fiscal year ending August 31, 2010	$	4,218
Fiscal year ending August 31, 2011		5,625
September 1, 2011 to December 31, 2011		1,875
Total future capital lease payments		11,718
Less interest		(1,891)
Total current and long-term capital lease liability	$	9,827

Interest rate on the capital lease is 17% based on the lessor’s implicit rate of return.

RESEARCH AGREEMENT

During the three month period ended November 30, 2009, the Company entered into a contract with a research company to develop research assays for Raptor’s cystinosis program.

The future commitments pursuant to the research agreement are as follows:

Period		Amount
December 1, 2009 through August 31, 2010	$	88,200

STORAGE AND CLINICAL DISTRIBUTION AGREEMENT

During the three month period ended November 30, 2009, the Company entered into an agreement with a company that stores and distributes clinical materials for Raptor’s cystinosis trial. The future commitments pursuant to this agreement are as follows:

Period		Amount
December 1, 2009 through August 31, 2010	$	89,896
Fiscal year ending August 31, 2011		113,868
Fiscal year ending August 31, 2012		105,395
Fiscal year ending August 31, 2013		22,141

FORMULATION / MANUFACTURING AGREEMENTS

In April 2008, the Company executed an agreement with a contract manufacturing organization to formulate and manufacture DR Cysteamine for its cystinosis program. The costs are invoiced to the Company in installments throughout the formulation and manufacturing process. Also in July 2008, the Company executed a supply agreement with a contract manufacturer for the active pharmaceutical agreement of DR Cysteamine. The future commitments pursuant to these contracts are as follows:

Period		Amount
December 1, 2009 through August 31, 2010	$	1,785,332
Fiscal year ending August 31, 2011		245,777
Fiscal year ending August 31, 2012		67,439

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(12) SUBSEQUENT EVENTS

The Company's management has evaluated and disclosed subsequent events from the balance sheet date of November 30, 2009 through January 13, 2010, the day before the date that the condensed consolidated financial statements were included in Company's Quarterly Report on Form 10-Q and filed with the SEC.

On December 17, 2009, the Company entered into a Placement Agent Agreement with Ladenburg Thalmann & Co. Inc. as placement agent (the "Placement Agent", relating to the issuance and sale to the Investors (as defined below) pursuant to a registered direct offering (the "Offering") of up to 3,747,558 units (the "Units"), consisting of (i) 3,747,558 shares of our common stock, (ii) warrants to purchase an aggregate of up to 1,873,779 shares of the Company's common stock (and the shares of common stock issuable from time to time upon exercise of such warrants) (the "Series A Warrants") and (iii) warrants to purchase an aggregate of up to 1,873,779 shares of the Company's common stock (and the shares of common stock issuable from time to time upon exercise of such warrants) (the "Series B Warrants," and collectively with the Series A Warrants, the "Investor Warrants").

The Placement Agent for the Offering received a placement fee equal to 6.5% of the gross cash proceeds to the Company from the Offering of the Units or $487,183 (excluding any consideration that may be paid in the future upon exercise of the Warrants), a warrant to purchase up to an aggregate of 74,951 shares of the Company's common stock at $2.50 per share (valued at approximately $141,000 using the following Black -Scholes pricing model assumptions: risk-free interest rate 2.23%; expected term 5 years and annual volatility 247.24%) and $25,000 in out-of-pocket accountable expenses. The warrant issued to the Placement Agent has the same terms and conditions as the Investor Warrants except that the exercise price is 125% of the public offering price per share or $2.50 per share, and the expiration date is five years from the effective date of the Registration Statement.

In connection with the Offering, following execution of the Placement Agreement, the Company also entered into a definitive securities purchase agreement (the "Purchase Agreement"), dated as of December 17, 2009, with 33 investors set forth on the signature pages thereto (collectively, the "Investors") with respect to the Offering of the Units, whereby, on an aggregate basis, the Investors agreed to purchase 3,747,558 Units for a negotiated purchase price of $2.00 per Unit amounting to gross proceeds of approximately $7.5 million and estimated net proceeds after commissions and expenses of approximately $6.9 million. Each Unit consists of one share of the Company's common stock, one Series A Warrant exercisable for 0.5 of a share of the Company's common stock and one Series B Warrant exercisable for 0.5 of a share of the Company's common stock. The shares of the Company's common stock and the Warrants were issued separately. The Series A Warrants will be exercisable during the period beginning one hundred eighty (180) days after the date of issue and ending on the fifth (5th) anniversary of the date of issue. The Series B Warrants will be exercisable during the period beginning one hundred eighty (180) days after the date of issue and ending on the eighteen (18) month anniversary of the date of issue. The Investor Warrants have a per share exercise price of $2.45. The Series A Warrants were valued at $3.5 million (using the following Black -Scholes pricing model assumptions: risk-free interest rate 2.23%; expected term 5 years and annual volatility 247.24%) and the Series B Warrants were valued at $3.0 million (using the following Black -Scholes pricing model assumptions: risk-free interest rate 0.56%; expected term 18 months and annual volatility 247.24%). Based on the underlying terms of the Investor Warrants and Placement Agent Warrants, management is currently assessing the proper classification of the

warrants as liability or equity.

Item 2. Management's Discussion and Analysis and Results of Operations.

FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, in other filings with the SEC and in press releases and other public statements by our officers throughout the year, we make or will make statements that plan for or anticipate the future. These "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, include statements about our future business plans and strategies, as well as other statements that are not historical in nature. These forward-looking statements are based on our current expectations.

In some cases, these statements can be identified by the use of terminology such as "believes," "expects," "anticipates," "plans," "may," "might," "will," "could," "should," "would," "projects," "anticipates," "predicts," "intends," "continues," "e "opportunity" or the negative of these terms or other comparable terminology. All such statements, other than statements of historical facts, including our financial condition, future results of operation, projected revenues and expenses, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing intellectual properties, technologies, products, plans, and objectives of management, markets for our securities, and other matters, are about us and our industry that involve substantial risks and uncertainties and constitute forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements, wherever they occur, are necessarily estimates reflecting the best judgment of our senior management on the date on which they were made, or if no date is stated, as of the date of the filing made with the SEC in which such statements were made. You should not place undue reliance on these statements, which only reflect information available as of the date that they were made. Our business' actual operations, performance, development and results might differ materially from any forward-looking statement due to various known and unknown risks, uncertainties, assumptions and contingencies, including those described in the section titled "Risk Factors," and including, but not limited to, the following:

- our need for, and our ability to obtain, additional funds;
- uncertainties relating to clinical trials and regulatory reviews;
- our dependence on a limited number of therapeutic compounds;

- the early stage of the products we are developing;
- the acceptance of any of our future products by physicians and patients;
- competition and dependence on collaborative partners;
- loss of key management or scientific personnel;
- our ability to obtain adequate intellectual property protection and to enforce these rights;
- our ability to avoid infringement of the intellectual property rights of others; and
- the other factors and risks described under the section captioned "Risk Factors" as well as other factors not identified therein.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, the factors discussed in this Quarterly Report on Form 10-Q, in other filings with the SEC and in press releases and other public statements by our officers throughout the year, could cause actual results or outcomes to differ materially and/or adversely from those expressed in any forward-looking statements made by us or on our behalf, and therefore we cannot guarantee future results, levels of activity, performance or achievements and you should not place undue reliance on any such forward-looking statements. We cannot give you any assurance that such forward-looking statements will prove to be accurate and such forward-looking events may not occur. In light of the significant uncertainties inherent in such forward-looking statements, you should not regard the inclusion of this information as a representation by us or any other person that the results or conditions described in those statements or our objectives and plans will be achieved.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to herein. Unless required by U.S. federal securities laws and the rules and regulations of the SEC, we do not undertake any obligation and disclaim any intention to update or release publicly any revisions to these forward-looking statements after the filing of this Quarterly Report to reflect later events or circumstances or to reflect the occurrence of unanticipated events or any other reason. -27-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

You should read the following discussion in conjunction with our condensed consolidated financial statements as of November 30, 2009, and the notes to such condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. All references to "the Company", "we", "our" and "us" include the activities of Raptor Pharmaceutical Corp. and its wholly-owned subsidiaries, Raptor Pharmaceuticals Corp., TPTX, Inc., Raptor Discoveries Inc. (f/k/a Raptor Pharmaceutical Inc.) or Raptor Discoveries and Raptor Therapeutics Inc. (f/k/a Bennu Pharmaceuticals Inc.) or Raptor Therapeutics. This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly under the heading "Risk Factors."

We believe that we are building a balanced pipeline of drug candidates that may expand the reach and benefit of existing therapeutics. Our product portfolio includes both candidates from our proprietary drug targeting platforms and in-licensed and acquired product candidates.

Our current pipeline includes three clinical development programs which we are actively developing. We also have three other clinical-stage product candidates, for which we are seeking business development partners but are not actively developing, and we have four preclinical product candidates we are developing, three of which are based upon our proprietary drug-targeting platforms.

Clinical Development Programs

Our three active clinical development programs are based on an existing therapeutic that we are reformulating for potential improvement in safety and/or efficacy and for application in new disease indications. These clinical development programs include the following:

- DR Cysteamine for the potential treatment of nephropathic cystinosis, or cystinosis, a rare genetic disorder;
- DR Cysteamine for the potential treatment of non-alcoholic steatohepatitis, or NASH, a metabolic disorder of the liver; and
- DR Cysteamine for the potential treatment of Huntington's Disease, or HD.

Other Clinical-Stage Product Candidates

We have three clinical-stage product candidates for which we are seeking partners:

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Convivia™ for the potential management of acetaldehyde toxicity due to alcohol consumption by individuals with aldehyde dehydrogenase, or ALDH2 deficiency, an inherited metabolic disorder; and

- Tezampanel and NGX426, non-opioids for the potential treatment of migraine, acute pain, and chronic pain.

Preclinical Product Candidates

Our preclinical platforms consist of targeted therapeutics, which we are developing for the potential treatment of multiple indications, including liver diseases, neurodegenerative diseases and breast cancer:

Our receptor-associated protein, or RAP, platform consists of: HepTide™ for the potential treatment of primary liver cancer and hepatitis C; and NeuroTrans™ to potentially deliver therapeutics across the blood-brain barrier for treatment of a variety of neurological diseases.

Our mesoderm development protein, or Mesd, platform consists of WntTide™ for the potential treatment of breast cancer.

We are also examining our glutamate receptor antagonists, tezampanel and NGX426, for the potential treatment of thrombosis disorder.

Future Activities

Over the next 12 months, we plan to conduct research and development activities based upon our DR Cysteamine clinical programs and continued development of our preclinical product candidates. We also plan to seek business development partners for our ConviviaTM product candidate and Tezampanel and NGX426. We may also develop future in-licensed technologies and acquired technologies. A brief summary of our primary objectives in the next 12 months for our research and development activities is provided below. There can be no assurances that our research and development activities will be successful. Our plans for research and development activities over the next 12 months can only be implemented if we are successful in raising significant funds during this period. If we do not raise significant additional funds, we may not be able to continue as a going concern.

Clinical Development Programs

We develop clinical-stage drug product candidates which are: internally discovered therapeutic candidates based on our novel drug delivery platforms and in-licensed or purchased clinical-stage products which may be new chemical entities in mid-to-late stage clinical development, currently approved drugs with potential efficacy in additional indications, and treatments that we could repurpose or reformulate as potentially more effective or convenient treatments for a drug's currently approved indications.

Development of DR Cysteamine for the Potential Treatment of Nephropathic Cystinosis or Cystinosis

Our DR Cysteamine product candidate is a proprietary delayed-release, enteric-coated microbead formulation of cysteamine bitartrate contained in a gelatin capsule. We are investigating DR Cysteamine for the potential treatment of cystinosis.

We believe that immediate-release cysteamine bitartrate, a cystine-depleting agent, is currently the only U.S. Food and Drug Administration, or FDA, and the European Medicines Agency, or EMEA, approved drug to treat cystinosis, a rare genetic disease. Immediate-release cysteamine is effective at preventing or delaying kidney failure and other serious health problems in cystinosis patients. However, patient compliance is challenging due to the requirement for frequent dosing and gastrointestinal side effects. Our DR Cysteamine for the potential treatment of cystinosis is designed to mitigate some of these difficulties. It is expected to be dosed twice daily, compared to the current every-six-hour dosing schedule. In addition, DR Cysteamine is designed to pass through the stomach and deliver the drug directly to the small intestine, where it is more easily absorbed into the bloodstream and may result in fewer gastrointestinal side effects.

The FDA granted orphan drug designation for DR Cysteamine for the treatment of cystinosis in 2006.

In June 2009, we commenced our Phase IIb clinical trial of DR Cysteamine in cystinosis, in which we enrolled nine cystinosis patients with histories of compliance using the currently available immediate-release form of cysteamine bitartrate. The clinical trial, which was conducted at the University of California at San Diego, or UCSD, evaluated safety, tolerability, pharmacokinetics and pharmacodynamics of a single dose of DR Cysteamine in patients. In November 2009, we released the data from the study which indicated improved tolerability and the potential to reduce total daily dosage and administration frequency compared to immediate-release cysteamine bitartrate. We plan to follow the Phase IIb clinical study with a pivotal Phase III clinical study in cystinosis patients anticipated to commence in the first quarter of 2010. While we plan to commercialize DR Cysteamine in the U.S. by ourselves, we are actively negotiating a potential development partner for DR Cysteamine for markets outside of the U.S.

Development of DR Cysteamine for the Potential Treatment of Non-Alcoholic Steatohepatitis or NASH

In October 2008, we commenced a clinical trial in collaboration with UCSD to investigate a prototype formulation of DR Cysteamine for the treatment of NASH in juvenile patients. In October 2009, we announced positive findings from the completed treatment phase of this open-label Phase IIa clinical trial. At the completion of the initial six-month treatment phase, the study achieved the primary endpoint: mean blood levels of alanine aminotransferase, or ALT, a common biomarker for NASH, were reduced by over 50%. Additionally, over half of the study participants had achieved normalized ALT levels by the end of the treatment phase.

There are no currently approved drug therapies for NASH, and patients are limited to lifestyle changes such as diet, exercise and weight reduction to manage the disease. DR Cysteamine may provide a potential treatment option for patients with NASH. Although NASH is most common in insulin-resistant obese adults with diabetes and abnormal serum lipid profiles, its prevalence is increasing among juveniles as obesity rates rise within this patient population. Although most patients are asymptomatic and feel healthy, NASH causes decreased liver function and can lead to cirrhosis, liver failure and end-stage liver disease.

The NASH trial entails six months of treatment followed by a six-month post-treatment monitoring period. Eligible patients with baseline ALT and aspartate aminotransferase or AST measurements at least twice that of normal levels were enrolled to receive twice-daily, escalating oral doses of up to 1,000 mg of DR Cysteamine. The trial currently has enrolled eleven NASH patients between 11-18 years old. No major adverse events were reported during the six-month treatment phase. Trial subjects continue to be monitored during the six-month post-treatment period currently underway. Full results are being submitted for peer review by UCSD and us and are expected to be presented in 2010.

Development of DR Cysteamine for the Potential Treatment of Huntington's Disease or HD

Huntington's Disease, or HD, is a fatal, inherited degenerative neurological disease affecting about 30,000 people in the U.S. and a comparable number of people in Europe. We are not aware of any treatment for HD other than therapeutics that minimize symptoms such as the uncontrollable movements and mood swings resulting from HD. We are collaborating with a French institution, CHU d' Angers, on a Phase II clinical trial investigating DR Cysteamine in HD patients, anticipated to begin in early 2010. We are providing the clinical trial materials for the study, which is sponsored by CHU d' Angers and funded in part by a grant from the French government. We were granted Orphan Drug Designation in the U.S. by the FDA for cysteamine as a potential treatment for HD in 2008.

Other Clinical-Stage Product Candidates

We have three clinical-stage product candidates for which we are seeking partners.

ConviviaTM for Liver Aldehyde Dehydrogenase Deficiency

Convivia™ is our proprietary oral formulation of 4-methylpyrazole, or 4-MP, intended for the potential treatment of acetaldehyde toxicity resulting from alcohol consumption in individuals with ALDH2 deficiency, which is an inherited disorder of the body's ability to breakdown ethanol, commonly referred to as alcohol intolerance. 4-MP is presently marketed in the U.S. and E.U. in an intravenous form as an anti-toxin. ConviviaTM is designed to lower systemic levels of acetaldehyde (a carcinogen) and reduce symptoms, such as tachycardia and flushing, associated with alcohol consumption by ALDH2-deficient individuals.

ConviviaTM is a capsule designed to be taken approximately 30 minutes prior to consuming an alcoholic beverage.

In 2008, we completed a Phase IIa dose escalation clinical trial of oral 4-MP with ethanol in ALDH2 deficient patients. The study results demonstrated that the active ingredient in ConviviaTM significantly reduced heart palpitations (tachycardia), which are commonly experienced by ALDH2 deficient people who drink, at all dose levels tested. The study also found that the 4-MP significantly reduced peak acetaldehyde levels and total acetaldehyde exposure in a subset of the study participants who possess specific genetic variants of the liver ADH and ALDH2 enzymes. We believe that this subset represents approximately one-third of East Asian populations. We are actively seeking corporate partnerships with pharmaceutical companies in selected Asian countries to continue clinical development of ConviviaTM in those countries.

Tezampanel and NGX426 for the Potential Treatment of Migraine and Pain

Tezampanel and NGX426, the oral prodrug of tezampanel, are what we believe to be first-in-class compounds that may represent novel treatments for both pain and non-pain indications. Tezampanel and NGX426 are receptor antagonists that target and inhibit a specific group of receptors—the AMPA and kainate glutamate receptors—found in the

brain and other tissues. While normal glutamate production is essential, excess glutamate production, either through injury or disease, has been implicated in a number of diseases and disorders. Published data show that during a migraine, increased levels of glutamate activate AMPA and kainate receptors, result in the transmission of pain and, in many patients, the development of increased pain sensitivity. By acting at both the AMPA and kainate receptor sites to competitively block the binding of glutamate, tezampanel and NGX426 have the potential to treat a number of diseases and disorders. These include chronic pain, such as migraine and neuropathic pain, muscle spasticity and a condition known as central sensitization, a persistent and acute sensitivity to pain.

Results of a Phase IIb clinical trial of tezampanel were released in October 2007. In the trial, a single dose of tezampanel given by injection was statistically significant compared to placebo in treating acute migraine headache. This was the sixth Phase II trial in which tezampanel has been shown to have analgesic activity. Based on a review of the Phase II data, the FDA previously agreed that tezampanel may move forward into a Phase III program for acute migraine.

In December 2008, results of NGX426 in a human experimental model of cutaneous pain, hyperalgesia and allodynia demonstrated a statistically significant reduction in spontaneous pain, hyperalgesia and allodynia compared to placebo following injections of capsaicin (i.e., chili oil) under the skin. In February 2009, results from a Phase 1 multiple dose trial of NGX426 showed that the compound is safe and well-tolerated in healthy male and female subjects when dosed once daily for five consecutive days.

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In November 2009, we announced the presentation of clinical trial data on NGX426 at the 12th International Conference on the Mechanisms and Treatment of Neuropathic Pain. The results of the study led by Mark Wallace, M.D., Professor of Clinical Anesthesiology at the Center for Pain Medicine of the University of California at San Diego, suggested that NGX426 has the potential to be effective in a variety of neuropathic pain states, which are caused by damage to or dysfunction of the peripheral or central nervous system rather than stimulation of pain receptors.

We are currently seeking program funding, development collaborations or out-licensing partners for the migraine and pain programs.

Preclinical Product Candidates

We are also developing a drug-targeting platform based on the proprietary use of RAP and Mesd. We believe that these proteins may have therapeutic applications in cancer, infectious diseases and neurodegenerative diseases, among others.

These applications are based on the assumption that our targeting molecules can be engineered to bind to a selective subset of receptors with restricted tissue distribution under particular conditions of administration. We believe these selective tissue distributions can be used to deliver drugs to the liver or to other tissues, such as the brain.

In addition to selectively transporting drugs to specific tissues, selective receptor binding constitutes a means by which receptor function might be specifically controlled, either through modulating its binding capacity or its prevalence on the cell surface. Mesd is being engineered for this latter application.

HepTideTM for Hepatocellular Carcinoma and Hepatitis C

Drugs currently used to treat primary liver cancer are often toxic to other organs and tissues. We believe that the pharmacokinetic behavior of RAP (i.e., the determination of the fate or disposition of RAP once administered to a living organism) may diminish the non-target toxicity and increase the on-target efficacy of attached therapeutics.

In preclinical studies of our radio-labeled HepTideTM (a variant of RAP), HepTideTM, our proprietary drug-targeting peptide was shown to distribute predominately to the liver. Radio-labeled HepTideTM which was tested in a preclinical research model of HCC, at the National Research Council in Winnipeg, Manitoba, Canada, showed 4.5 times more delivery to the liver than the radio-labeled control. Another study of radio-labeled HepTideTM in a non-HCC preclinical model, showed 7 times more delivery to the liver than the radio-labeled control, with significantly smaller amounts of radio-labeled HepTideTM delivery to other tissues and organs.

HCC is caused by the malignant transformation of hepatocytes, epithelial cells lining the vascular sinusoids of the liver, or their progenitors. HepTideTM has shown to bind to lipoprotein receptor-related protein, or LRP1, receptors on hepatocytes. We believe that the pharmacokinetics and systemic toxicity of a number of potent anti-tumor agents may be controlled in this way.

There are additional factors that favor the suitability of RAP as an HCC targeting agent:

- RAP is captured by hepatocytes with efficiency, primarily on first-pass.

- Late-stage HCC is perfused exclusively by the hepatic artery, while the majority of the liver is primarily perfused through the portal vein.

Studies have shown that the RAP receptor, LRP1, is well expressed on human HCC and under-expressed on non-cancerous, but otherwise diseased, hepatocytes. Also, LRP1 expression is maintained on metastasized HCC. These factors will favor delivery of RAP peptide-conjugated anti-tumor agents to tumor cells, whether in the liver or at metastasized sites.

We are evaluating conjugates between HepTideTM and a chemotherapeutic for testing in vitro and in appropriate preclinical models for the potential treatment of HCC.

We are also evaluating conjugates between HepTideTM and an antiviral agent for testing in vitro and in appropriate preclinical models for the potential treatment of hepatitis C.

NeuroTransTM for the Potential Treatment of Diseases Affecting the Brain

Hundreds of known genetic and neurodegenerative diseases affect the brain. Drugs often have difficulty reaching these disease-affected areas because the brain has evolved a protective barrier, commonly referred to as the blood-brain barrier.

Part of the solution to the medical problem of neurodegenerative diseases is the creation of effective brain targeting and delivery technologies. One of the most obvious ways of delivering therapeutics to the brain is via the brain's extensive vascular network. Treating these diseases by delivering therapeutics into the brain in a minimally invasive way, including through a natural receptor mediated transport mechanism called transcytosis, is a vision shared by many researchers and clinicians in the neuroscience and neuromedical fields.

NeuroTrans™ is our proprietary RAP-based technology program to research the delivery of therapeutics across the blood-brain barrier. We believe our NeuroTrans™ platform may provide therapies that will be safer, less intrusive and more effective than current approaches in treating a wide variety of brain disorders.

In preclinical studies, NeuroTrans™ has been conjugated to a variety of protein drugs, including enzymes and growth factors, without interfering with the function of either fusion partner. Studies indicate that radio-labeled NeuroTrans™ may be transcytosed across the blood-brain barrier and that fusions between NeuroTrans™ and therapeutic proteins may be manufactured economically. Experiments conducted in collaboration with Stanford University in 2008 support the NeuroTrans™ peptide's ability to enhance the transport of cargo molecules into the cells that line the blood-brain barrier.

In June 2009, we entered into a collaboration and licensing agreement with F. Hoffman — La Roche Ltd. and Hoffman—La Roche Inc., or Roche, to evaluate therapeutic delivery across the blood-brain barrier utilizing NeuroTrans™. Under terms of the agreement, Roche has funded studies of select molecules attached to NeuroTrans™. The agreement provides Roche with an exclusive worldwide license to NeuroTrans™ for use in the delivery of diagnostic and therapeutic molecules across the blood-brain barrier. Roche's and our scientists will actively collaborate on the project. We have received an initial upfront payment for the collaboration to cover our portion of the initial studies, and may earn development milestone payments and royalties in exchange for the licensing of NeuroTrans™ to Roche.

WntTideTM for the Potential Treatment of Cancer

Human Mesd is a natural inhibitor of the receptor LRP6. LRP6 has recently been shown to play a role in the progression of some breast tumors. Studies in the laboratory of Professor Guojun Bu, one of our scientific advisors, at the Washington
University in St. Louis Medical School support the potential of Mesd and related peptides to target these tumors. These molecules and applications are licensed to us from Washington University.

WntTide™ is our proprietary, Mesd-based peptide that we are developing as a potential therapeutic to inhibit the growth and metastasis of tumors over-expressing LRP5 or LRP6. We have licensed the use of Mesd from Washington University in St. Louis for the potential treatment of cancer and bone density disorders.

In April 2009, Washington University conducted a preclinical study of WntTide™ in a breast cancer model which showed tumor inhibition. The results of this study were presented at the 2nd Annual Wnt Conference in Washington, D.C., in June 2009 and will likely be published in the first quarter of 2010. We are currently planning another breast tumor preclinical model study with researchers at Washington University in the continued development of WntTide™.

Tezampanel and NGX426 for the Potential Treatment of Thrombotic Disorder

Research conducted at Johns Hopkins University, or JHU, by Craig Morrell, D.V.M., Ph.D., and Charles Lowenstein, M.D. demonstrated the importance of glutamate release in promoting platelet activation and thrombosis. Research shows that platelets treated with an AMPA/kainate receptor antagonist such as tezampanel or NGX426 are more resistant to glutamate-induced aggregation than untreated platelets. This identifies the AMPA/kainate receptors on

platelets targeted by tezampanel or NGX426 as a new antithrombotic target with a different mechanism of action than Plavix®, aspirin or tPA. We have licensed the intellectual property of Tezampanel and NGX 426 for the treatment of thrombotic disorder from JHU and are in discussions with potential collaborators regarding the development of this product candidate.

Other Development Areas

Securing Additional and Complementary Technology Licenses from Others

We plan to establish additional research collaborations with prominent universities and research labs currently working on the development of potential targeting molecules, and to secure licenses from these universities and labs for technology resulting from the collaboration. No assurances can be made regarding our ability to establish such collaborations over the next 12 months, or at all. We intend to focus our in-licensing and product candidate acquisition activities on identifying complementary therapeutics, therapeutic platforms that offer a number of therapeutic targets, and clinical-stage therapeutics based on existing approved drugs in order to create proprietary reformulations to improve safety and efficacy or to expand such drugs' clinical indications through additional clinical trials. We may obtain these products through collaborations, joint ventures or through merger and/or acquisitions with other biotechnology companies.

Strategic Acquisitions

Reverse Merger with Raptor Pharmaceuticals Corp.

In July 2009, we, and our then wholly-owned subsidiary ECP Acquisition, Inc., a Delaware corporation, or merger sub, entered into an Agreement and Plan of Merger and Reorganization, or the 2009 Merger Agreement, with Raptor Pharmaceuticals Corp., a Delaware corporation. On September 29, 2009, on the terms and subject to the conditions set forth in the 2009 Merger Agreement, merger sub was merged with and into Raptor Pharmaceuticals Corp. and Raptor Pharmaceuticals Corp. survived such merger as our wholly-owned subsidiary. This merger is referred to herein as the 2009 Merger. Immediately prior to the 2009 Merger and in connection therewith, we effected a 1-for-17 reverse stock split of our common stock and changed our corporate name to "Raptor Pharmaceutical Corp."

As of immediately following the effective time of the 2009 Merger, Raptor Pharmaceuticals Corp.'s stockholders (as of immediately prior to such 2009 Merger) owned approximately 95% of our outstanding common stock and our stockholders owned approximately 5% of our outstanding common stock, in each case without taking into account any of our or Raptor Pharmaceuticals Corp.'s shares of common stock, respectively, that were issuable pursuant to outstanding options or warrants of ours or Raptor Pharmaceuticals Corp., respectively, outstanding as of the effective time of the 2009 Merger. Although Raptor Pharmaceuticals Corp. became our wholly-owned subsidiary, Raptor Pharmaceuticals Corp. was the "accounting acquirer" in the 2009 Merger and its board of directors and officers manage and operate the combined company. Our common stock currently trades on The NASDAQ Capital Market under the ticker symbol, "RPTP."

Purchase of ConviviaTM

In October 2007, prior to the 2009 Merger, Raptor Pharmaceuticals Corp. purchased certain assets of Convivia, Inc., or Convivia, including intellectual property, know-how and research reports related to a product candidate targeting liver ALDH2 deficiency, a genetic metabolic disorder. Raptor Pharmaceuticals Corp. hired Convivia's chief executive officer and founder,
Thomas E. (Ted) Daley, as the President of its clinical development division. In exchange for the assets related to the ALDH2 deficiency program, what we now call ConviviaTM, Raptor Pharmaceuticals Corp. issued to Convivia 200,000 shares of its common stock, an additional 200,000 shares of its common stock to a third party in settlement of a convertible loan between the third party and Convivia, and another 37,500 shares of its common stock in settlement

of other obligations of Convivia. Mr. Daley, as the former sole stockholder of Convivia, may earn additional shares of our common stock based on certain triggering events or milestones related to the development of the Convivia assets. In addition, Mr. Daley may earn cash bonuses based on the same triggering events pursuant to his employment agreement. In January 2008, Mr. Daley earned a $30,000 cash bonus pursuant to his employment agreement as a result of the milestone of our execution of a formulation agreement for manufacturing ConviviaTM with Patheon. In March 2008, Raptor Pharmaceuticals Corp. issued to Mr. Daley 100,000 shares of its common stock pursuant to the Convivia purchase agreement as a result of the milestone of our execution of an agreement to supply us with the active pharmaceutical ingredient for ConviviaTM and two $10,000 cash bonuses pursuant to his employment agreement for reaching his six-month and one-year employment anniversaries. In October 2008, Raptor Pharmaceuticals Corp. issued to Mr. Daley 100,000 shares of its common stock valued at $27,000 and a $30,000 cash bonus as a result of fulfilling a clinical milestone. Due to the 2009 Merger, the 200,000, 200,000, 37,500, 100,000 and 100,000 shares Raptor Pharmaceuticals Corp., respectively, described above, became 46,625, 46,625, 8,742, 23,312 and 23,312 shares of our common stock, respectively.

Purchase of DR Cysteamine

In December 2007, prior to the 2009 Merger, through a merger between Encode Pharmaceuticals, Inc., or Encode, and Raptor Therapeutics, Raptor Pharmaceuticals Corp. purchased certain assets, including the clinical development rights to DR Cysteamine. Under the terms of and subject to the conditions set forth in the merger agreement, Raptor Pharmaceuticals Corp. issued 3,444,297 shares of its common stock to the stockholders of Encode, or Encode Stockholders, options, or Encode Options, to purchase up to, in the aggregate, 357,427 shares of its common stock to the optionholders of Encode, or Encode Optionholders, and warrants, or Encode Warrants, to purchase up to, in the aggregate, 1,098,276 shares of its common stock to the warrantholders of Encode, or Encode Warrantholders, and together with the Encode Stockholders and Encode Optionholders, referred to herein collectively as the Encode Securityholders, as of the date of such agreement. Due to the 2009 Merger, the 3,444,296 shares of Raptor Pharmaceuticals Corp.'s common stock, the 357,427 Encode Options and 1,098,276 Encode Warrants, respectively, became 802,946 shares of our common stock, Encode Options to purchase 83,325 shares of our common stock and Encode Warrants to purchase 256,034 shares of our common stock, respectively. The Encode Securityholders are eligible to receive up to an additional 559,496 shares of our common stock, Encode Options and Encode Warrants to purchase our common stock in the aggregate based on certain triggering events related to regulatory approval of DR Cysteamine, an Encode product program, if completed within the five year anniversary date of the merger agreement.

As a result of the Encode merger, we received the exclusive worldwide license to DR Cysteamine, referred to herein as the License Agreement, developed by clinical scientists at the UCSD, School of Medicine. In consideration of the grant of the license, we are obligated to pay an annual maintenance fee of $15,000 until we begin commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, we are obligated to pay during the life of the License

Agreement: milestone payments ranging from $20,000 to $750,000 for orphan indications and from $80,000 to $1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year we begin commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, we are obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. In addition, we are obligated, among other things, to spend annually at least $200,000 for the development of products (which we satisfied, as of August 31, 2009 by spending approximately $4.1 million on such programs) pursuant to the License Agreement. To-date, we have paid $270,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis and in NASH. To the extent that we fail to perform any of our obligations under the License Agreement, UCSD may terminate the license or otherwise cause the license to become non-exclusive.

Application of Critical Accounting Policies

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles used in the U.S. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our consolidated financial position.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements.

Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments including cash and cash equivalents, prepaid expenses, accounts payable, accrued liabilities and capital lease liability approximate fair value due to their short maturities.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Intangible Assets

Intangible assets include the intellectual property and other rights relating to DR Cysteamine, to the RAP technology and to the out-license and the rights to NGX 426 acquired in the 2009 Merger. The intangible assets related to DR Cysteamine and the RAP technology are amortized using the straight-line method over the estimated useful life of 20 years, which is the life of the intellectual property patents. The 20 year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to NGX 426, which has been classified as in-process research and development, will not be amortized until development is completed.

Goodwill

Goodwill represents the excess of the value of the purchase consideration over the identifiable assets acquired in the 2009 Merger. Goodwill will be reviewed annually, or when an indication of impairment exists, to determine if any impairment analysis and resulting write-down in valuation is necessary.

Fixed Assets

Fixed assets, which mainly consist of leasehold improvements, lab equipment, computer hardware and software and capital lease equipment, are stated at cost. Depreciation is computed using the straight-line method over the related estimated useful lives, except for leasehold improvements and capital lease equipment, which are depreciated over the shorter of the useful life of the asset or the lease term. Significant additions and improvements that have useful lives estimated at greater than one year are capitalized, while repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets

We evaluate our long-lived assets for indicators of possible impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or discounted estimates of future cash flows. We have not identified any such impairment losses to date. -34-

Income Taxes

Income taxes are recorded under the liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Research and Development

We are an early development stage company. Research and development costs are charged to expense as incurred. Research and development expenses include scientists' salaries, lab collaborations, preclinical studies, clinical trials, clinical trial materials, regulatory and clinical consultants, lab supplies, lab services, lab equipment maintenance and small equipment purchased to support the research laboratory, amortization of intangible assets and allocated executive, human resources and facilities expenses.

In-Process Research and Development

Prior to September 1, 2009, the Company recorded in-process research and development expense for a product candidate acquisition where there is not more than one potential product or usage for the assets being acquired. Upon the adoption of the revised guidance on business combinations, effective September 1, 2009, the fair value of acquired in-process research and development is capitalized and tested for impairment at least annually. Upon completion of the research and development activities, the intangible asset is amortized into earnings over the related products useful life. The Company reviews each product candidate acquisition to determine the existence of in-process research and development.

Stock-Based Compensation

In May 2006, Raptor Pharmaceuticals Corp.'s stockholders approved the 2006 Equity Compensation Plan, as amended, referred to herein as the Plan. The Plan's term is ten years and allows for the granting of options to employees, directors and consultants. Effective as of the effective time of the 2009 Merger, we assumed the outstanding stock options of Raptor Pharmaceuticals Corp. granted under the Plan. Such assumed options are subject to the terms of the Plan and, in each case, are also subject to the terms and conditions of an incentive stock option agreement, non-qualified stock option agreement or other option award, as the case may be, issued under such Plan. Prior to the 2009 Merger, and subject to it becoming effective, our board of directors adopted the Plan such that the Plan became

an equity incentive plan of ours after the 2009 Merger.

Typical option grants under the Plan are for ten years with exercise prices at or above market price based on the last closing price as of the date prior to the grant date on the relevant stock market or exchange and vest over four years as follows: 6/48ths on the six month anniversary of the date of grant; and 1/48th per month thereafter.

Effective September 1, 2006, our stock-based compensation is accounted for in accordance with Financial Accounting Standards Board or FASB Accounting Standards Codification or ASC Topic 718, Accounting for Compensation Arrangements, or ASC 718 (previously listed as SFAS No. 123 (revised 2004)), Share-Based Payment and related interpretations. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating future stock price volatility and employee stock option exercise behavior. If actual results differ significantly from these estimates, stock-based compensation expense and results of operations could be materially impacted.

In March 2005, the SEC issued ASC 718 (previously listed as Staff Accounting Bulletin, or SAB, No. 107, or SAB 107), which offers guidance for what was previously referred to as SFAS 123(R). ASC 718 was issued to assist preparers by simplifying some of the implementation challenges of SFAS 123(R) while enhancing the information that investors receive. ASC 718 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by ASC 718 include valuation models, expected volatility and expected term.
For the three month period ended November 30, 2009, stock-based compensation expense was based on the Black-Scholes option-pricing model assuming the following: risk-free interest rate of 2.97%; 7 year expected life; 245.42% volatility; 10% turnover rate; and 0% dividend rate.

We based our Black-Scholes inputs on the following factors: the risk-free interest rate was based upon our review of current constant maturity treasury bill rates for seven years; the expected life was based upon our assessment of the ten-year term of the stock options issued along with the fact that we are a development-stage company and our anticipation that option holders will exercise stock options when the company is at a more mature stage of development; the volatility was based on the actual volatility of our common stock price as quoted on the over the counter bulletin board; the turnover rate was based on our

assessment of our size and the minimum potential for employee turnover at our current development-stage; and the dividend rate was based on our current decision to not pay dividends on our stock at our current development stage.

If factors change and different assumptions are employed in the application of ASC 718, the compensation expense recorded in future periods may differ significantly from what was recorded in the current period. See Note 8 of our condensed consolidated financial statements for further discussion of our accounting for stock based compensation.

We recognize as consulting expense the fair value of options granted to persons who are neither employees nor directors. Stock options issued to consultants are accounted for in accordance with the provisions of the FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees, ("ASC 505-50") (previously listed as Emerging Issues Task Force ("EITF") Consensus No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services). The fair value of expensed options is based on the Black-Scholes option-pricing model assuming the same factors as stock-based compensation expense discussed above.

On November 10, 2005, FASB, issued ASC 718 (previously listed as FASB Staff Position, or FSP, No. FAS 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards). ASC 718 provides a practical transition election related to the accounting for the tax effects of share-based payment awards to employees, as an alternative to the transition guidance for the additional paid-in capital pool (APIC pool). The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of ASC 718. The guidance in ASC 718 is effective after November 10, 2005. We may take up to one year from the later of adoption of ASC 718 or the effective date of this section of ASC 718 to evaluate our available transition alternatives and make our one-time election. We have elected the "short-form" method to calculating excess tax benefits available for use in offsetting future tax shortfalls in accordance with ASC 718.

Results of Operations

Three months ended November 30, 2009 and 2008

General and Administrative

General and administrative expenses (including officer and employee compensation allocated to general and administrative expenses) for the three months ended November 30, 2009 increased by $0.35 million compared to the same period of the prior year. The increase was primarily due to (A) an increase of $0.09 million in investor relations expenses related to additional investor mailings and news releases surrounding the 2009 Merger (B) $0.08 million in additional accounting fees incurred to value the 2009 Merger consideration, Sarbanes-Oxley compliance and other support related to our footnote disclosures in our year-end financial statements, (C) an increase of $0.07 million in directors and officers insurance incurred in connection with the 2009 Merger (D) $0.06 million in patent application expenses, (E) an increase of $0.04 million in transfer agent fees related to the 2009 Merger, and (F) a decrease in facilities and human resources expenses allocated to research and development of $0.03 million due to the reduction of headcount in the research and development department, and all of which were partially offset by the decrease of non-cash compensation of $0.07 million representing a stock bonus earned in the prior year quarter but not repeated the current quarter.

Research and Development

Research and development expenses (including officer and employee compensation allocated to research and development) for the three months ended November 30, 2009 increased by $0.11 million over the prior year primarily due to (A) an increase of $0.54 million for our Phase IIb clinical trial of DR Cysteamine in cystinosis patients, including the cost of clinical material manufacturing and formulation, clinical trial expenses, clinical trial monitoring fees and clinical material storage and distribution fees, (B) an increase of $0.10 million in salaries and benefits due to the hiring of our director of program management in October 2008 and our Chief Medical Officer in April 2009, all of which were partially offset by (i) a decrease of $0.18 million in milestone payments as the prior year quarter included NASH related milestones and the current quarter only included a milestone payment for the first patient dosed in our Phase IIb cystinosis trial of $0.02 million, (ii) a decrease of $0.12 million in research and development consulting for DR Cysteamine directly resulting from the hiring of our Chief Medical Officer, (iii) a decrease of $0.11 million of preclinical studies performed for NASH in the prior year quarter not repeated in the current quarter, (iv) a decrease of $0.09 million in HepTide preclinical materials incurred in the prior year quarter that was not repeated in the current quarter, and (v) a reduction of $0.03 million of facilities and human resources expenses allocated to research and development due to the reduction in research personnel.

Research and development expenses include the following: (in $ millions)

Major Program (stage of development)	Estimated Next 12 Months	Cumulative from September 8, 2005 (inception) Through November 30, 2009	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008
DR Cysteamine — All Indications (clinical)	7.8	6.2	1.2	1.0
ConviviaTM (clinical)	0.1	2.2	0.1	0.2
HepTideTM (preclinical)	0.1	1.6	—	0.1
NeuroTransTM (preclinical)	—	0.3	—	—
WntTideTM (preclinical)	—	0.4	0.1	—
Minor or Inactive Programs	—	0.7	—	—
R & D Personnel and Other Costs Not Allocated to Programs	2.0	5.4	0.5	0.5
Total Research & Development Expenses	10.0	16.8	1.9	1.8

Major Program expenses recorded as general and administrative expenses: (in $ millions)

Major Program (stage of development)	Estimated Next 12 Months	Cumulative from September 8, 2005 (inception) Through November 30, 2009	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008
DR Cysteamine — All Indications (clinical)	0.10	0.20	—	0.04
ConviviaTM (clinical)	0.01	0.12	0.03	—
HepTideTM (preclinical)	0.04	0.23	0.06	—
NeuroTrans TM (preclinical)	0.03	0.16	0.01	0.01
WntTide TM (preclinical)	0.01	0.06	—	