Raptor Pharmaceutical Corp
Form 424B3
July 15, 2010

Prospectus Supplement dated July 15, 2010
Supplement Filed Pursuant to Rule 424(b)(3)

Prospectus

Registration No. 333-166249

Prospectus Supplement dated July 15, 2010
(To Prospectus dated May 7, 2010)

RAPTOR PHARMACEUTICAL CORP.

4,500,000 SHARES OF COMMON STOCK

This prospectus supplement supplements that certain prospectus dated May 7, 2010 (the "Prospectus") relating to the offer and sale by Lincoln Park Capital Fund, LLC of up to 4,500,000 shares of common stock, par value $0.001, of Raptor Pharmaceutical Corp., a Delaware corporation (the "Company").

This prospectus supplement contains the Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2010 filed by the Company with the Securities and Exchange Commission on July 15, 2010 (the "10-Q"). This prospectus supplement is not complete without, and may not be delivered or used except in connection with, the Prospectus. This prospectus supplement is qualified by reference to the Prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the Prospectus, including any supplements or amendments thereto.

INVESTING IN THE COMPANY'S COMMON STOCK INVOLVES SUBSTANTIAL RISKS. SEE THE SECTION TITLED "RISK FACTORS" BEGINNING ON PAGE 9 OF THE PROSPECTUS AND THE SECTION TITLED "RISK FACTORS THAT MAY AFFECT FUTURE RESULTS" BEGINNING ON PAGE 50 OF THE 10-Q TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF THE COMPANY'S COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE PROSPECTUS OR THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is July 15, 2010.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended May 31, 2010

or

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

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) (Zip Code)

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

(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 Web site, 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 [ ]

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.:

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 24,948,426 shares of the registrant’s common stock, $.001 par value per share, outstanding at July 14, 2010.

RAPTOR PHARMACEUTICAL CORP.

FORM 10-Q FOR THE QUARTER ENDED MAY 31, 2010

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

ASSETS	May 31, 2010 (unaudited)	August 31, 2009 (1)
Current assets:		
Cash and cash equivalents	$ 3,484,913	$ 3,701,787
Prepaid expenses and other	130,558	107,054
Total current assets	3,615,471	3,808,841
Intangible assets, net	3,550,917	2,524,792
Goodwill	3,275,403	-
Fixed assets, net	105,755	144,735
Deposits	102,906	100,206
Deferred offering costs	207,107	-
Total assets	$ 10,857,559	$ 6,578,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Accounts payable	$ 805,276	$ 613,577
Accrued liabilities	315,078	451,243
Common stock warrant liability	7,304,652	-
Deferred rent	1,081	-
Capital lease liability – current	4,666	4,117
Total current liabilities	8,430,753	1,068,937
Capital lease liability - long-term	3,104	6,676
Total liabilities	8,433,857	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 24,080,732 and 17,857,555 shares issued and outstanding as at May 31, 2010 and		

August 31, 2009, respectively	24,081	17,858
Additional paid-in capital	38,853,154	27,364,286
Deficit accumulated during development stage	(36,453,533)	(21,879,183)
Total stockholders' equity	2,423,702	5,502,961
Total liabilities and stockholders' equity	$ 10,857,559	$ 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 March 1 to May 31,	
	2010	2009
Revenues:	$ -	$ -
Operating expenses:		
General and administrative	938,113	671,348
Research and development	2,176,658	1,895,670
Total operating expenses	3,114,771	2,567,018
Loss from operations	(3,114,771)	(2,567,018)
Interest income	5,489	2,967
Interest expense	(814)	(595)
Adjustment to fair value of common stock warrants	(4,345,251)	-
Net loss	$ (7,455,347)	$ (2,564,646)
Loss per share from operations:		
Basic and diluted	$ (0.14)	$ (0.18)
Net loss per share:		
Basic and diluted	$ (0.33)	$ (0.18)
Weighted average shares outstanding used to compute:		
Basic and diluted	22,842,875	14,087,658

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 nine month periods from		For the cumulative period from September 8, 2005 (inception) to May 31, 2010
	September 1, 2009 to May 31, 2010	September 1, 2008 to May 31, 2009	
Revenues:	$ -	$ -	$ -
Operating expenses:			
General and administrative	2,926,960	1,935,612	9,883,200
Research and development	6,271,997	5,369,922	21,146,281
In-process research and dev.	-	-	240,625
Total operating expenses	9,198,957	7,305,534	31,270,106
Loss from operations	(9,198,957)	(7,305,534)	(31,270,106)
Interest income	15,897	32,930	317,800
Interest expense	(2,649)	(1,876)	(112,586)
Adjustment to fair value of common stock warrants	(5,388,641)	-	(5,388,641)
Net loss	$ (14,574,350)	$ (7,274,480)	$ (36,453,533)
Loss per share from operations:			
Basic and diluted	$ (0.44)	$ (0.52)	
Net loss per share:			
Basic and diluted	$ (0.69)	$ (0.52)	
Weighted average shares outstanding used to compute:			
Basic and diluted	20,999,659	14,083,388	

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 nine month periods from		For the cumulative period from September 8, 2005 (inception) to May 31, 2010
	September 1, 2009 to May 31, 2010	September 1, 2008 to May 31, 2009	
Cash flows from operating activities:			
Net loss	$ (14,574,350)	$ (7,274,480)	$ (36,453,533)
Adjustments to reconcile net loss to net cash used in operating activities:			
Employee stock-based compensation exp.	140,857	332,456	1,355,884
Consultant stock-based compensation exp.	75,405	39,705	483,018
Fair value adjustment of common stock warrants	5,388,641	-	5,388,641
Amortization of intangible assets	113,875	103,874	359,083
Depreciation of fixed assets	55,026	66,935	405,966
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	75,933	(47,914)	(31,120)
Intangible assets	-	-	(150,000)
Deposits	(2,700)	-	(102,907)
Accounts payable	191,699	(26,412)	805,276
Accrued liabilities	(816,996)	(186,313)	(365,648)
Deferred rent	1,081	252	976
Net cash used in operating activities	(9,351,529)	(6,991,897)	(27,923,739)
Cash flows from investing activities:			
Purchase of fixed assets	(14,400)	(22,734)	(490,750)
Cash acquired in 2009 Merger	581,395	-	581,395
Net cash provided by (used in) investing activities	566,995	(22,734)	90,645
Cash flows from financing activities:			
	7,495,116	-	24,881,116

Proceeds from the sale of common stock			
Proceeds from the sale of common stock under an equity line	2,399,976	-	2,399,976
Proceeds from the exercise of common stock warrants	56,018	-	6,565,518
Proceeds from the exercise of common stock options	50,060	-	58,760
Fundraising costs	(1,430,488)	(36,809)	(2,885,810)
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	(3,022)	(2,509)	(11,553)
Net cash provided by (used in) financing activities	8,567,660	(39,318)	31,318,007
Net increase (decrease) in cash and cash equivalents	(216,874)	(7,053,949)	3,484,913
Cash and cash equivalents, beginning of period	3,701,787	7,546,912	-
Cash and cash equivalents, end of period	$ 3,484,913	$ 492,963	$ 3,484,913
Supplemental disclosure of non-cash financing activities:			
Warrants issued in connection with financing	$ 1,916,011	$ -	$ 8,549,583
Common stock and warrants issued in connection with reverse merger	$ 4,415,403	$ -	$ 4,415,403
Common stock issued as fee for equity line	$ 363,331	$ -	$ 363,331
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
Amortization of direct offering costs	$ 156,400	$ -	$ 156,400

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. The Company's fiscal year end is August 31.

On July 28, 2009, the Company and ECP Acquisition, Inc., a Delaware corporation, the Company's then-wholly-owned subsidiary("merger sub"), entered into an Agreement and Plan of Merger and Reorganization (the "2009 Merger Agreement"), with Raptor Pharmaceuticals Corp., a Delaware corporation ("RPC"). 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 (the "2009 Merger"), merger sub was merged with and into RPC and RPC survived the 2009 Merger as a wholly-owned subsidiary of the Company. Immediately prior to the 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 RPC'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 the Company's common stock, on a post 1-for-17 reverse-split basis. Each option and warrant to purchase RPC'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, RPC's stockholders (as of immediately prior to the 2009 Merger) owned approximately 95% of the Company's outstanding common stock and the Company's stockholders (as of immediately prior to the 2009 Merger) owned approximately 5% of the Company's outstanding common stock.

RPC, 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 RPC 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 RPC 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 (State of Incorporation):

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 clinical 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 for which it 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 PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Raptor's preclinical division bioengineers novel drug candidates and drug-targeting platforms derived from the human receptor-associated protein ("RAP") and related proteins. 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 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., such subsidiaries 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 May 31, 2010, the Company had accumulated losses of approximately $36.5 million. Management expects to incur further losses for the foreseeable future. Management believes that the Company's cash and cash equivalents at July 14, 2010 will be sufficient to meet the Company's obligations into the fourth calendar quarter of 2010. In April 2010, the Company entered into a $15 million equity line facility with a single investor, which allows the Company to sell shares of the Company's common stock every two days if the Company's selling price to the investor is over $1.50 per share. Cumulatively, as of July 14, 2010, the Company has sold approximately 2.1 million shares under the equity line raising approximately $4.7 million. The Company plans to continue to utilize the equity line to fund its current cash needs and at the same time is reviewing several proposals to raise additional equity in a private placement transaction in order to fund the Company's operations through the next 12 to 18 months. The Company also continues to review strategic partnerships and collaborations as a potential means to fund its preclinical and clinical programs in the future. If the Company is not able to obtain funds that provide significant additional capital for it in the next two months and is unable to draw on the equity line because the purchase price to the investor is below $1.50, the Company 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 the Company's 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.

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 periods ended May 31,					
	2010			2009		
	Preclinical	Clinical	Total	Preclinical	Clinical	Total
Net loss	$ (1,873,835)	$ (5,581,512)	$ (7,455,347)	$ (778,853)	$ (1,785,793)	$ (2.564,646)
Total assets	2,689,609	8,167,950	10,857,559	434,515	3,044,070	3,478,585

	For the nine month periods ended May 31,					
	2010			2009		
	Preclinical	Clinical	Total	Preclinical	Clinical	Total
Net loss	$ (3,902,752)	$ (10,671,598)	$ (14,574,350)	$ (2,384,237)	$ (4,890,243)	$ (7,274,480)
Total assets	2,689,609	8,167,950	10,857,559	434,515	3,044,070	3,478,585

(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.

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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) Common Stock Warrant Liabilities

The warrants issued by the Company in its December 2009 equity financing contain a conditional obligation that may require the Company to transfer assets to repurchase the warrants upon the occurrence of potential future events. Under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 480, Distinguishing Liabilities from Equity ("ASC 480"), a financial instrument that may require the issuer to settle the obligation by transferring assets is classified as a liability. Therefore, the Company has classified the warrants as liabilities and will mark them to fair value at each period end.

(k) Marking-to-Market

The common stock warrants issued in the Company's December 2009 equity financing are classified as liabilities under ASC 480 and are, therefore, re-measured at the end of every reporting period with the change in value reported in its condensed consolidated statements of operations.

(l) 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.

(m) Research and Development

The Company is a development stage biotechnology 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.

(n) 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 product's useful life. The Company reviews each product candidate acquisition to determine the existence of in-process research and development.

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(o) 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:

	May 31,	
	2010	2009
Warrants to purchase common stock	5,543,738	3,090,814
Options to purchase common stock	1,390,353	989,196
Total potentially dilutive securities	6,934,091	4,080,010

(p) Stock Option Plan

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

(q) Recent Accounting Pronouncements

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 the Company's financial position and consolidated results of operations in future years, but had no material impact for the three and nine months ended May 31, 2010.

In December 2007, the 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 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 assets acquired; (vi) expense, as incurred, acquisition-related transaction costs; (vii) capitalize acquisition-related restructuring costs only if the criteria in ASC Topic 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

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 the 2009 Merger utilizing these provisions.

In May 2008, the FASB released ASC Topic 470, Debt ("ASC 470") (previously FASB Staff Position APB 14-1 Accounting For Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which 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. 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 and nine months ended May 31, 2010.

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 the Company's condensed consolidated statement of operations for the three and nine months ended May 31, 2010.

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 and nine months ended May 31, 2010.

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 May 31, 2010 through July 14, 2010.

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. 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 and nine months ended May 31, 2010.

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: (i) the elimination of the exemption for qualifying special purpose entities, (ii) a new approach for determining who should consolidate a variable-interest entity, and (iii) changes to when it is

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 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. ASC 105 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 and nine months ended May 31, 2010.

In June 2009, the FASB issued ASC Topic 860, Transfers and Servicing (Statement No. 166, Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140) ("ASC 860"). The guidance removes the concept of a qualifying special purpose entity and changes the requirements for derecognizing financial assets. Many types of transferred financial assets that would have been derecognized previously are no longer eligible for derecognition. The guidance is effective for statements issued for fiscal years and interim periods beginning after November 15, 2009, and early adoption is prohibited. The guidance applies prospectively to transfers of financial assets occurring on or after the effective date. The Company is currently assessing the impact of ASC 860 and does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements ("ASU 2010-6"). The ASU amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity will be required on a gross rather than net basis. The ASU provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Company is currently assessing the impact of ASU 2010-6 and does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition ("ASU 2010-17"). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or

development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company will adopt ASU 2010-17 as of September 1, 2010 and does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

(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 May 31, 2010 and August 31, 2009 based on the estimated fair value of its agreement with BioMarin.

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On December 14, 2007, the Company acquired the intellectual property and other rights to develop DR Cysteamine to treat various clinical 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. 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 stockholder.

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

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		(359,083)
Intangible assets, net	$	3,550,917

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, which has been classified as in-process research and development, will not be amortized until the product is developed. During the three and nine months ended May 31, 2010 and 2009 and the cumulative period from September 8, 2005 (inception) to May 31, 2010, the Company amortized $38,375, $113,875, $34,625, $103,874 and $359,083, respectively, of intangible assets to research and development expense.

The following table summarizes the actual and estimated amortization expense for 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

(4) FIXED ASSETS

Fixed assets consisted of:

Category	May 31, 2010	August 31, 2009	Estimated useful lives
Leasehold improvements	$ 119,773	$ 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	88,486	80,437	3 years
Capital lease equipment	14,006	14,006	Shorter of life of asset or lease term
Total at cost	502,756	488,356	
Less: accumulated depreciation	(397,001)	(343,621)	
Total fixed assets, net	$ 105,755	$ 144,735	

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Depreciation expense for the three and nine months ended May 31, 2010 and 2009 and the cumulative period from September 8, 2005 (inception) to May 31, 2010 was $19,041, $55,026, $21,169, $66,935 and $405,966, respectively. Accumulated depreciation on capital lease equipment was $7,182 and $3,951 as of May 31, 2010 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 May 31, 2010 and August 31, 2009 are summarized as follows:

Assets	Level 1	Level 2	Level 3	May 31, 2010
Fair value of cash equivalents	$3,214,624	$ —	$ —	$3,214,624
Total	$3,214,624	$ —	$ —	$3,214,624
Liabilities				
Fair value of common stock warrants	$ —	$ —	$7,304,652	$7,304,652
Total	$ —	$ —	$7,304,652	$7,304,652

Assets	Level 1	Level 2	Level 3	August 31, 2009
	$ 3,515,353	$ —	$ —	$ 3,515,353

Fair value of cash equivalents				
Total	$ 3,515,353	$ —	$ —	$ 3,515,353

Cash equivalents represent the fair value of the Company's investment in two money market accounts as of May 31, 2010 and August 31, 2009.

Marking-to-Market

The common stock warrants issued in the Company's December 2009 equity financing are classified as liabilities under ASC 480 and are, therefore, re-measured at the end of every reporting period with the change in value reported in its condensed consolidated statements of operations.

For the three and nine month periods ended May 31, 2010, as a result of the marking-to-market of the warrant liability, the Company recorded a loss of $4.34 million and $5.38 million, respectively, in the line item adjustment to fair value of common stock warrants in its condensed consolidated statement of operations. See Note 10 for further discussion on the calculation of the

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

fair value of the warrant liability.

	Warrant liability in millions
Fair value at issuance date on December 23, 2009	$ 1.92
Adjustment to mark to market common stock warrants at February 28, 2010	1.04
Adjustment to mark to market common stock warrants at May 31, 2010	4.34
Common stock warrant liability at fair value on May 31, 2010	$ 7.30

(6) ACCRUED LIABILITIES

Accrued liabilities consisted of:

	May 31, 2010	August 31, 2009
Legal fees	$ 108,014	$ 195,552
Accrued vacation	82,258	38,109
Patent costs	48,791	10,500
Salaries and wages	41,693	57,351
Consulting - general and administrative	15,000	-
Consulting - research and development	9,393	21,000
Auditing and tax preparation fees	1,195	19,720
2009 Merger joint proxy/prospectus	-	109,011
Other	8,734	-
Total accrued liabilities	$ 315,078	$ 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 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 PLANS

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. 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: (i) 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 (ii) quarterly amortization related to all stock option 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 and nine months ended May 31, 2010 and 2009 and for the cumulative period from September 8, 2005 (inception) to May 31, 2010 was $87,852, $140,857, $107,165, $332,456 and $1,355,884, respectively, of which cumulatively $1,134,815 was included in general and

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

administrative expense and $221,069 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%
Quarter ended February 28, 2010	3.1%	7 years	55%	10%
Quarter ended May 31, 2010	3.1%	7 years	77%	2.5%

* Dividend rate is 0% for all periods 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 Opinion 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.

During the quarter ended May 31, 2010, the Company changed its volatility calculation to reflect its historical trading commencing on September 30, 2009, which is the date that the 2009 Merger was consummated and the Company's common stock started trading on NASDAQ. The Company originally estimated volatility based upon historical volatility commencing in June 2006, when it first began trading on the Over-the-Counter Bulletin Board. The Company changed the volatility assumptions to better reflect its anticipated trading on NASDAQ. During the quarter ended May 31, 2010, the Company analyzed its actual turnover rate and concluded that 2.5% was a more accurate turnover rate on an annual basis.

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 and nine months ended May 31, 2010 and 2009 and for the cumulative period from September 8, 2005 (inception) to May 31, 2010 was $4,721, $75,405, $16,910, $39,705 and $483,018, respectively, of which cumulatively $118,919 was included in general and administrative expense and $364,099 was included in research and development expense.

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of the activity in the 2010 Equity Incentive Plan, 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	$ 2.63
Exercised	(2,115)	$ 2.24	—	$ 2.24
Canceled	(5,606)	$ 376.53	—	$ 2.63
Outstanding at November 30, 2009	1,193,126	$ 17.30	1,109,737	$ 2.34
Granted	-	-	-	-
Exercised	(850)	$ 1.88	-	$ 1.76

Canceled	(742)	$ 1,559.50	-	$ 2.63
Outstanding at February 28, 2010	1,191,534	$ 16.35	1,035,521	$ 2.34
Granted	228,026	$ 2.08	63,334	$ 1.45
Exercised	(29,141)	$ 1.50	-	$ 1.28
Canceled	(66)	$ 1,194.71	-	-
Outstanding at May 31, 2010	1,390,353	$ 14.26	1,069,648	$ 2.34

The weighted average intrinsic values of stock options outstanding and expected to vest and stock options exercisable as of May 31, 2010 and 2009 were $1,255,298, $854,835, $23,250 and $766, respectively.

There were 2,721,384 options available for grant as of May 31, 2010 under the 2010 Equity Incentive Plan, which was approved by the Company's Board of Directors as of February 2, 2010 and approved by its stockholders on March 9, 2010. No further grants will be made under any previous or assumed stock option plans. As of May 31, 2010, the options outstanding under all of the Company's stock option plans 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					