


# Management Discussion and Analysis of the Financial Condition and Results of Operations

## Fiscal 2015 – Third Quarter
## for the three and nine month periods ended January 31, 2015

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## Overview

The following Management Discussion and Analysis ("MD&A") is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or "the Company") for the three and nine month periods ended January 31, 2015. This MD&A is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. The Audit Committee of the Company, as authorized by the Board of Directors, approved the content of this MD&A on March 19, 2015. Disclosure contained in this document is current to this date, unless otherwise stated. This analysis should be read in conjunction with the unaudited condensed interim financial statements ("Interim Financial Statements") and notes thereto for the three and nine month periods ended January 31, 2015. These Interim Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and in particular with International Accounting Standard 34: Interim Financial Reporting.

All dollar amounts are expressed in Canadian dollars ("CAD") unless stated otherwise.

The Company's quarterly interim reports, Annual Financial Statements, Annual Information Form ("AIF"), and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.criticaloutcome.com

## Forward-looking Statements

This MD&A contains certain statements based upon forward-looking information ("forward-looking statements" or "FLS") concerning the Company's plans for its operations and other matters within the meaning of applicable Canadian provincial securities laws. FLS are necessarily based on estimates and assumptions that are inherently subject to significant business, economic, and competitive uncertainties and contingencies. All statements that address activities, events, or developments that the Company believes, expects or anticipates will or may occur in the future are FLS. FLS are subject to a variety of risks and uncertainties that may cause the actual events or results of the Company to differ materially from those discussed in the FLS, and even if such actual events or results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Any statements that express or involve discussion with respect to predictions, expectations, beliefs, plans, projections, objectives, or assumptions of future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be FLS. The major FLS included in this MD&A are set out in Table 1.

*Table 1: Forward-looking Statements*

| MD&A Section Heading | Nature of Forward-looking Information Disclosed |
|---|---|
| Our Business | • Intends to license its targeted molecules<br>• Plans for further testing of COTI-2 leading to an investigational new drug ("IND") filing and readiness for a Phase 1 human trial<br>• Plans for future application of the CHEMSAS® technology on a collaboration basis<br>• The Company's commercialization strategy for collaborations |
| Liquidity and Capital Resources | • Plans to seek additional cash resources<br>• Future financing from amended warrants<br>• Plans to raise capital in the United States ("U.S.") |
| Foreign Exchange Exposure | • Expectation of increased exposure to currency fluctuations from holding USD and future research contracts denominated in foreign currency |
| Financial and Operational Progress & Outlook | • Update on progress with key operating objectives in 2015 and into fiscal 2016<br>• Scientific experiments for COTI-2 progressing to optimize the licensing value of the drug candidate to Phase 1 ready status<br>• The inability to continue to develop AML compounds as a follow on licensing program<br>• Collaboration projects ongoing with Western University, Delmar Chemicals Inc., and a multinational pharmaceutical company leading to completion and revenue<br>• New applications of CHEMSAS® to be launched<br>• New technologies under development |
| Industry and Economic Risk Factors Affecting Performance | • The expectation of continued losses until a revenue transaction is secured<br>• Plans to negotiate future licensing agreements<br>• Plans to raise additional financing through different venues and mechanisms available to the Company |
| Changes in Accounting Policies | • The adoption in fiscal 2016 of new accounting standards issued by the Accounting Standards Board |

The basis for the FLS is management's current expectations, estimates, projections, and assumptions. By their nature, they are not guarantees of future performance as they involve significant risks and uncertainties.

The main assumptions used by management to develop the forward-looking information include the following:

- An ability to obtain sufficient financing to support working capital requirements and fund further research and development initiatives;

- An ability to further enhance and add features to the CHEMSAS® technology or incorporate advances in artificial intelligence for internal and collaborative purposes;
- A continuation of favourable preclinical test results from the COTI-2 program and an ability to meet the requirements for regulatory approval;
- Obtaining patent protection for the Company's compounds and other intellectual property; and,
- An ability to attract and retain skilled and experienced personnel and to maintain relationships with third party clinical research organizations.

Management of COTI considers the assumptions on which the FLS are based to be reasonable. However, management cautions the reader that because of the many risk factors as set out in the Company's AIF, including those specifically described below, which are of particular importance to the assumptions above, actual results could differ materially from those expressed or implied in the FLS. These assumptions may prove to be wrong, and as such, undue reliance should not be placed on any individual FLS.

The main risk factors that will influence the Company's ability to realize on its FLS include:

- The ability to raise sufficient financing for continuing operations and development including maintaining the Company's workforce;
- The ability to continue favourable preclinical test results from the Company's lead oncology compound, COTI-2;
- The ability to meet future regulatory requirements to commercialize compounds, in particular, COTI-2;
- The ability to establish customer relationships leading to licensing agreements for the Company's compounds;
- The ability to generate customer demand for outputs from the CHEMSAS® technology; and,
- The ability to obtain patent protection for the Company's compounds.

The forward-looking information is provided as of the date of this MD&A and the Company does not undertake any obligation to publicly update or revise any forward-looking information, whether because of new information, future events, or otherwise, except as required by securities laws.

## The Company

COTI is a London, Ontario, based company resulting from the amalgamation on October 13, 2006, of Aviator Petroleum Corp. ("Aviator"), a public company listed on the TSX Venture Exchange ("TSXV"), and Critical Outcome Technologies Inc., a private company under the provisions of the *Business Corporations Act* (Ontario). The amalgamation constituted the qualifying transaction for Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and its common shares were listed and posted for trading on the TSXV under the symbol COT on October 30, 2006.

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 3015402 Ontario Inc. operating as DDP Therapeutics ("DDP"), in which the Company had, up to the date of the acquisition, a 10% ownership interest. DDP was formed in early 2005 to develop a library of molecules initially targeted at small cell lung cancer that were discovered by the Company using its drug discovery technology.

On May 1, 2008, the Company amalgamated with this wholly owned subsidiary under the laws of the Province of Ontario.

On June 16, 2014, the Company commenced trading in the United States on the OTC Markets OTCQB trading platform for venture companies under the symbol COTQF.

## Our Business

COTI is a biopharmaceutical company that uses machine learning to rapidly develop targeted therapies. COTI's proprietary artificial intelligence platform, CHEMSAS®, utilizes a series of predictive computer models to identify compounds with a high probability of being successfully developed from disease specific drug discovery through chemical optimization and preclinical testing. These compounds are targeted for a variety of diseases, particularly those for which current treatments are either lacking or ineffective.

Portfolios of novel, small molecules that have been developed include drug candidates for the treatment of various cancers, human immunodeficiency virus ("HIV"), Alzheimer's disease, and multiple sclerosis. Cancer types specifically targeted include small cell lung, acute myelogenous leukemia ("AML"), ovarian, endometrial, pancreatic, brain, breast, and colon.

The Company is currently taking an oncology molecule, COTI-2, forward through various preclinical tests to a Phase 1 human trial in gynecological cancers as commercial validation of both the compound's viability as a clinical drug candidate and the discovery capabilities of the underlying CHEMSAS® technology used to discover it. Accordingly, COTI's near term focus is on preparing the Investigational New Drug ("IND") application based on the positive preclinical test results achieved by COTI-2 against a number of cancer indications. Current testing initiatives and planning would enable an IND filing by April 1,2015; upon grant of the IND, COTI-2 would be available for licensing or co-development as a Phase 1 ready compound.

The Company also seeks to leverage CHEMSAS® to identify targeted lead candidates of commercial interest to pharmaceutical, biotechnology, research, and academic organizations on a collaborative basis. The Company's commercialization strategy for collaborations involves an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results and a royalty on sales. This service offering provides prospective customers with an efficient and cost effective approach for generating targeted discovery stage compounds while enhancing value to COTI and its shareholders from the underlying CHEMSAS® technology.

## Operational Progress & Outlook

Overview Q3-FYE'15

a) Operations

In Q3-FYE'15, the Company's focus was on the writing, preparation and completion of any additional test data needed for the IND with particular emphasis on the manufacturing and chemistry sections.

As discussed in the FYE'14 MD&A, while COTI-2 results continue to be positive, potential licensees are seeking confirmatory human data as an event to trigger formal licensing discussions. The filing of the IND is the important first step to provide this data with grant of the IND from the U.S. Food and Drug Administration ("FDA") allowing the Company to move ahead with the Phase 1 human trial with MD Anderson Cancer Center ("MD Anderson") in Houston, TX. At the end of October 2014, the Company anticipated the filing of the IND application to occur in January 2015 with the first patients enrolled in the study in the first quarter of 2015, subject to receiving the grant of the IND from the FDA. The Company was not able to meet this filing target due to formulation issues but with these issues resolved, the Company believes it is on track for an IND submission by the end of March 2015.

The typical time to grant of an IND is in the range of one to three months. Given the FDA review conducted of COTI-2's scientific data package in granting the Orphan Drug Designation, the Company believes approval will be received earlier rather than later in this range. Accordingly, a Phase 1 start in the summer of 2015 is a reasonable expectation.

During the quarter, the Company continued its strategic efforts to broaden the number of oncology indications for which COTI-2 would be a valuable therapy. In this regard, the Company was pleased to announce on January 20, 2015 that it had entered into a material transfer agreement with Dr. John Yoo, MD, FRCSC, FACS and his team at the London Health Sciences Centre's London Regional Cancer Program and Western University. Dr. Yoo's team will continue its evaluation of COTI-2 for the treatment of patients with recurrent squamous cell head and neck cancer ("HNSCC"). Their preliminary findings with single agent COTI-2 showed tremendous promise and were consistent with studies conducted by researchers at MD Anderson in ovarian cancer.

"We have tested over 1,500 chemotherapeutic agents in our head and neck cancer cell lines and COTI-2 is the most active drug that we have ever seen in our lab by an exponential factor," said Dr. John Yoo, Chair and City-wide Chief, Department of Otolaryngology – Head and Neck Surgery at the London Hospitals, Schulich School of Medicine & Dentistry, Western University – January 20, 2015

These studies are also complementary to those undertaken by Dr. Jeff Myers of MD Anderson in HNSCC as announced in October 2014.

Other cancer indications and expressions of interest to evaluate COTI-2 are being pursued for acute myelogenous leukemia, pancreatic cancer, and lung cancer with other major research institutions.

b) Financing

The Company has a number of important objectives planned for the balance of fiscal 2015 and for fiscal 2016 to drive the business to revenue. However, in order to realize its objectives, the Company will require additional funding. Funding achievements in Q3-FYE'15 and year to date are highlighted in the Liquidity and Capital Resources section and include approximately $3.9 million in net financing closed during the first nine months of the fiscal year.

Funding sources required to fund operations through fiscal 2016 may include:

- the exercise of options and warrants that could occur with an increase in the Company's share price above current levels;
- private or public financings with an emphasis on institutional investors and creating a U.S. base of investors;
- government funding;
- co-development project funding from interested partners; and,
- a licensing agreement for COTI-2 or one of the collaboration assets.

## Key Operational Objectives Update

The Company set out key operational objectives for fiscal 2015 in its fiscal 2014 year-end MD&A. An update on progress regarding each major initiative and these objectives is set out below.

1. COTI-2

a) To complete the 28-day two-species toxicity experiments by July 31, 2014.

*Update*: The laboratory work including pathology was completed successfully by July 31, 2014 with a draft report for review and comment for each species provided to the Company. The final report was received in October 2014 and the Company issued a press release on October 30, 2014, confirming the low toxicity of COTI-2 observed throughout its preclinical development studies. The impact of the positive study outcomes for the Company's Phase 1 human trial protocol is as follows:

- Achieving a No Observed Adverse Effect Level ("NOAEL") status, determined in both the rodent and non-rodent species using an oral dosing regimen that was well tolerated both at and above levels that have been effective in recent xenograft experiments, allows for the selection of a starting oral dose in the Phase 1 human trial within the dosing parameters established from the toxicity studies;

- The range of safe and effective doses for COTI-2 was identified as being quite wide for a cancer drug and is consistent with COTI-2 having a good safety profile as identified in other preclinical xenografts; and,

- The studies were conducted with a five day on, and two day off dosing schedule repeated for a total of 28 days in both species. Achieving an NOAEL for this dosing regimen provides a treatment regime of Monday to Friday dosing with weekends off, which is generally well tolerated and easy to administer from a patient's perspective.

b) To prepare the IND submission package to the FDA by the end of September 2014 with major activities as follows:

i. IND application writing

*Update:* The September 2014 target date was not met due to delays from Contract Research Organization ("CRO") activities in the completion of the manufacturing, testing, and data gathering for the final oral formulation to be used in the Phase 1 human trial. These issues have been resolved and the writing is progressing with a filing by the end of March 2015.

ii. Phase 1 human trial test protocol preparation

*Update:* The Company and the investigative team from MD Anderson have been working on the test protocol since early June 2014. The protocol is expected to be finalized in March 2015 now that the final formulation and manufacturing issues have been resolved.

iii. Investigator's brochure preparation

*Update:* The Company and the investigative team from MD Anderson have been working on the brochure since early June 2014 and it is expected to be completed in March 2015 in conjunction with the test protocol.

iv. Pre-filing FDA meeting

*Update:* Based upon the FDA review of the COTI-2 data package in approving the Orphan Drug status for ovarian cancer, the Company was able to obtain a waiver from this Pre-filing meeting. Instead, the FDA provided a letter in October 2014 setting out a series of scientific data questions that the Company has addressed in the IND application.

v. Electronic submission of IND

*Update:* Currently targeted for the end of March 2015.

c) To obtain Orphan Drug Designation for COTI-2 in the treatment of ovarian cancer with a target for approval by July 31, 2014.

*Update:* This target was met with the notice of approval for this designation received in June 2014 and announced on June 17, 2014. This designation provides potentially significant benefits for the compound and its future licensee and enhances the value of the compound for COTI.

d) To commence a Phase 1 human trial of COTI-2 by the end of its fiscal year of April 30, 2015. The estimated cost for this trial is approximately $3.5 million USD.

*Update:* With the filing of the IND by the end of March 2015, the Company will not make the original target to commence the Phase 1 trial by April 30, 2015, which is now expected to commence in the summer of 2015 subject to FDA grant of the IND.

The Company has signed a letter of intent ("LOI") to conduct a Phase 1 human trial with MD Anderson. The final budget and signing of the agreements are expected once the IND is filed and the final budget can be set. Because of these agreements, the Company will not bear the full cost of the trial but will receive funding in kind from MD Anderson. The Company will be finalizing the budget for the project in late March 2015 but at a cost to COTI substantially less than the $3.5 million USD original projection.

e) To move COTI-2 licensing discussions forward to a licensing agreement based upon achieving milestones such as the toxicity test outcomes, IND approval, and Phase 1 human trial initiation.

*Update:* The Company continues to share the test outcomes and progress with interested parties. The test results from the two-species toxicity studies and other assay results on the chemistry and manufacturing have been shared with interested parties under confidentiality agreements during the quarter. Licensing discussions will continue as the IND is completed and the Phase 1 trial approaches.

2. <u>R&D Collaborations</u>

a) To move two of the collaborations (Delmar Chemicals Inc. and Western University) toward potential preclinical licensing events in the latter half of the fiscal year.

*Update:* A preclinical licensing event for these collaborations by April 30, 2015, is unlikely given progress to date. Progress on each collaboration is summarized below.

Western University – As updated in October 2014, Western received approval on a grant application in Q2-FYE'15 to provide additional financing for completing proof of concept studies that are now ongoing. COTI and Western also moved ahead jointly with a patent application and COTI filed a provisional patent in August 2014. Western and the Company are continuing to discuss funding and co-development opportunities with a major international partner based upon their interest in the SOX-9 target and the outcome of the animal studies underway.

Delmar Chemicals Inc. ("DCI") – There has been no change since the second quarter MD&A. The project is based upon inhibiting angiogenesis targets identified to be of potential interest in the Open Innovation Drug Discovery ("OIDD") program of Eli Lilly and Company. Two of the three compounds that passed the initial OIDD computational screens are on target to be transferred to

the OIDD program by April 30, 2015. OIDD will then conduct its in-house assay-testing program that is expected to take 4-6 months. The third compound remains with DCI in synthesis.

b) To determine next steps with the Major Pharma collaboration announced in December 2012 and complete the second phase of the project to position it for a license event or engage new potential licensees for the program should the Major Pharma not wish to proceed.

*Update:* There has been limited progress on this objective as the Company continues to wait on further direction from the Pharma as to final test data and conclusions as to what further refinements and optimization might be required to move the final candidates for the Pharma to evaluate into the second phase of the project. COTI has a testing strategy it could implement to provide data to foster a decision but currently cannot allocate the funds to this testing to move the project forward.

c) To launch at least one co-development initiative undertaken on a fee for service model for customer driven targets using CHEMSAS®.

*Update:* The Company commenced preliminary work on compounds targeted at methicillin-resistant staphylococcus aureus ("MRSA") in response to the interest of a European based Pharma. Synthesis of the compounds identified and optimized by CHEMSAS® commenced in late July 2014 with a Swiss synthetic chemistry company specializing in the unique synthesis process necessary for compounds of the molecular structure identified. The Company anticipates synthesis to be completed by the end of March 2015 at which time the compound would be ready for confirmatory *in vitro* and *in vivo* studies to be conducted.

3. <u>AML Program</u>

a) To conduct *in vivo* efficacy and maximum tolerated dose studies to enable the selection of the final compound for moving forward in further preclinical testing.

*Update:* There has been no progress on this initiative due to resource constraints. Further development is on hold until resources are available.

b) To initiate qualification discussions with the list of prospective licensees with the objective of positioning for a license or co-development of the program as the preclinical scientific data package builds.

*Update:* There has been no progress on this initiative due to resource constraints as highlighted immediately above since the data from that testing is necessary to move forward on this initiative.

4. New revenue initiatives

a) To complete the business and marketing plan and hire staff to launch the CHEMFirm product service.

*Update:* A draft high-level business plan was completed and the Company continues to refine a detailed marketing and business implementation plan. A detailed plan is expected to be finalized in the first quarter of fiscal 2016.

b) To launch the CHEMFirm product service.

*Update:* There has been no progress at the end of Q3-FYE'15 pending further business planning efforts noted in 4(a) above. Launching this service is targeted for Q2-FYE'16.

New Technologies

As noted in the annual MD&A for FYE'14, the Company commenced development of a new technology based upon the substantial database of both proprietary and public knowledge gathered in its oncology drug discovery projects. The project, currently referred to as ROSALIND, is targeted to provide personalized oncology drug treatment recommendations to physicians and patients based on the genetic profile of each individual patient's specific cancer. A working model of ROSALIND has been developed. A PCT patent was filed for the technology in December 2012 with an office action underway that appears to indicate the patent should be received once the patent review process is completed. The Company continued to build the strategic plan necessary to validate and develop this technology on a timely basis during Q3-FYE'15. Some of the key strategic issues being addressed include:

- Completion of initial proof of concept validation with oncology practitioners with a limited number of patients;
- Identification and engagement of collaborative development partners;
- Development of a large scale validation study;
- Development of a business case to bring the technology to market; and,
- Funding plan.

The Company plans to seek government support and research partners in moving the project through clinical and commercial validation.

## Financial Review of Operations

The Company's operational activities during the third quarter were focused in three main areas; first, the completion of testing and preparation of the IND application for COTI-2; second, financing efforts to fund the Phase 1 human trial of COTI-2 and the Company's operations for the next year; and, third, business development initiatives. These activities resulted in the Company incurring a net loss during the quarter and for the nine months year to date.

Summary financial results for the comparative fiscal third quarter, three and nine month periods ended January 31, 2015 and 2014 is set out in Table 2.

*Table 2: Summary Financial Results – Third Quarter Comparisons*

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **January 31, 2015** | **January 31, 2014** | **January 31, 2015** | **January 31, 2014** |
| **Expenses (income):** | | | | |
| Research and product development | 345,520 | 183,411 | 935,462 | 440,605 |
| Sales and marketing | 80,576 | 39,682 | 191,261 | 84,818 |
| General and administration | 584,000 | 480,118 | 1,844,204 | 1,296,995 |
| Investment tax credits | (26,233) | (27,852) | (111,830) | (48,552) |
| | 983,863 | 675,359 | 2,859,097 | 1,773,866 |
| **Loss before finance income (expense)** | (983,863) | (675,359) | (2,859,097) | (1,773,866) |
| **Finance income (expense):** | | | | |
| Interest income (expense) | (15,948) | 1,392 | (53,175) | 2,942 |
| Foreign exchange gain | 50,308 | 2,581 | 45,770 | 1,266 |
| | 34,360 | 3,973 | (7,405) | 4,208 |
| **Loss and comprehensive loss** | $ (949,503) | $ (671,386) | $ (2,866,502) | $ (1,769,658) |
| **Loss per share:** | | | | |
| Basic and diluted loss per common share | $ (0.01) | $ (0.01) | $ (0.03) | $ (0.02) |

## Revenue

There was no collaboration and research service revenue recognized or earned in the quarter ended January 31, 2015 (Q3-FYE'15) or in the quarter ended January 31, 2014 (Q3-FYE'14) nor for the comparative nine month fiscal periods.

## Operating Expenses

Operating expenses increased from $675,359 for Q3-FYE'14 to $983,863 for Q3-FYE'15, an increase of $308,504. On a year to date basis, operating expenses increased by $1,085,231 from $1,773,866 in YTD-FYE'14 to $2,859,097 in YTD-FYE'15. This increase occurred across all major functional expense areas with some offset by an increase in investment tax credits earned.

a) Research and Product Development ("R&D") Expenses

Table 3 provides a breakdown of R&D expenses by major expense types for the comparable three and nine month fiscal periods ended January 31. The Company's R&D focus in Q3-FYE'15 was on the writing and preparation of its IND application for COTI-2 and on completing any testing or analysis in support of the IND application. These efforts are reflected in the increase of $162,109 in R&D expenses quarter over quarter and $494,857 for the comparable nine month periods.

The *in vivo* testing, focused on the toxicity effects of COTI-2 in animals that began in Q2-FYE'14, finished in Q2-FYE'15 with the completion of the final component of that package, the 28-day two-species dosing segment. This completion was reflected in the decrease of $47,125 quarter over quarter for Q3-FYE'15 and the increase of $35,630 for the comparable nine month periods. Some *in vitro* work continued in Q3-FYE'15 in support of the IND application.

*Table 3: R&D Expenses – Comparative Periods Ended January 31*

| | Q3-FYE'15 | Q3-FYE'14 | Change |
|---|---|---|---|
| In vivo/In vitro testing | $ 20,036 | $ 67,161 | $ (47,125) |
| Synthesis | 104,327 | 9,189 | 95,138 |
| Miscellaneous R&D expenses | 74,882 | 11,100 | 63,782 |
| | 199,245 | 87,450 | 111,795 |
| Salaries and benefits | 113,775 | 101,267 | 12,508 |
| Professional fees | 14,410 | 3,120 | 11,290 |
| Other | 18,090 | 7,475 | 10,615 |
| | 345,520 | 199,312 | 146,208 |
| Government assistance | - | (15,901) | 15,901 |
| Total | $ 345,520 | $ 183,411 | $ 162,109 |

| | YTD - FYE'15 | YTD - FYE'14 | Change |
|---|---|---|---|
| In vivo/In vitro testing | $ 148,021 | $ 112,391 | $ 35,630 |
| Synthesis | 236,105 | 26,180 | 209,925 |
| Miscellaneous R&D expenses | 181,224 | 15,627 | 165,597 |
| | 565,350 | 154,198 | 411,152 |
| Salaries and benefits | 291,704 | 275,973 | 15,731 |
| Professional fees | 37,096 | 8,041 | 29,055 |
| Other | 41,312 | 22,816 | 18,496 |
| | 935,462 | 461,028 | 474,434 |
| Government assistance | - | (20,423) | 20,423 |
| Total | $ 935,462 | $ 440,605 | $ 494,857 |

Following completion of animal testing, the focus in Q3-FYE'15 shifted to finalizing the formulation and scale up of COTI-2 for human trials. Major activities included: manufacturing of a GMP clinical batch, filling, packaging, labelling and packaging of the clinical doses, documentation for this manufacture, testing of the material to simulate pharmacy preparation and patient handling, and stability and impurity studies. As a result, synthesis costs increased $95,138 quarter over quarter. Also included in the current quarter increase were synthesis costs for other drug development projects of $38,875 ($77,284 for the nine month period) for which there were no similar project costs in the comparable prior periods.

To support the synthesis efforts, the Company used CRO consultants and their costs are reflected in the Miscellaneous R&D expenses. CRO consultants were also used in the drafting activities of the

investigational new drug application for COTI-2 to commence Phase 1 human trials. The IND related expense increase in the quarter was consistent with comparative year to date results related to this activity.

b) General and Administration ("G&A") Expenses

Table 4 provides a breakdown of G&A expenses by major expense types for the comparable three and nine month fiscal periods ended January 31. The increase in G&A expenses quarter over quarter and for the comparable nine month periods is primarily attributable to new initiatives and the timing of incurring expenses compared to the prior comparable periods. This is reflected in the significant increases in Professional fees, Corporate governance, Promotion and travel, and Share-based compensation.

*Table 4: G&A Expenses – Comparative Periods Ended January 31*

| | Q3-FYE'15 | Q3-FYE'14 | Change |
|---|---|---|---|
| Amortization | $ 134,423 | $ 135,027 | $ (604) |
| Professional fees | 123,638 | 122,401 | 1,237 |
| Salaries and benefits | 81,691 | 85,922 | (4,231) |
| Corporate governance | 36,617 | 42,952 | (6,335) |
| Insurance | 14,418 | 13,926 | 492 |
| Promotion and travel | 11,603 | 6,174 | 5,429 |
| Rent | 10,200 | 9,346 | 854 |
| Other | 5,783 | 2,839 | 2,944 |
| | 418,373 | 418,587 | (214) |
| Share-based compensation | 165,627 | 61,531 | 104,096 |
| Total | $ 584,000 | $ 480,118 | $ 103,882 |

| | YTD - FYE'15 | YTD - FYE'14 | Change |
|---|---|---|---|
| Amortization | $ 401,422 | $ 399,620 | $ 1,802 |
| Professional fees | 634,610 | 342,513 | 292,097 |
| Salaries and benefits | 265,948 | 244,637 | 21,311 |
| Corporate governance | 137,122 | 77,494 | 59,628 |
| Insurance | 43,263 | 41,568 | 1,695 |
| Promotion and travel | 72,751 | 28,807 | 43,944 |
| Rent | 30,315 | 28,038 | 2,277 |
| Other | 39,358 | 16,658 | 22,700 |
| | 1,624,789 | 1,179,335 | 445,454 |
| Share-based compensation | 219,415 | 117,660 | 101,755 |
| Total | $ 1,844,204 | $ 1,296,995 | $ 547,209 |

Professional fees expense was relatively flat in the quarter comparisons, however, on a nine month basis, there were new initiatives where the Company engaged consultants whose costs are reflected in Professional fees. These included: information technology upgrades, financial modelling support, strategic planning sessions with the Board of Directors, strategic advice on raising awareness of the Company in the U.S., strategic advice in pursuing financing in the U.S. and Canada, and support related to obtaining a listing on the OTCQB trading platform to provide improved market access for U.S. investors. These consulting fees included a non-cash expense for U.S. financial market advisory services valued at $265,200 using a Black-Scholes valuation model that related to payment for these services by issuing 1,500,000 common share purchase warrants of the Company exercisable at $0.19 USD for a period of five years from the date of issuance.

The decrease of $6,335 in Corporate governance expense in the quarterly comparison related to the timing of the Annual General and Special Meeting of Shareholders ("AGM"), which was held in Q2-FYE'15 (October 21, 2014), rather than Q3-FYE'15 (December 5, 2013) in the prior year. The significant increase for the comparative nine month periods reflects new initiatives including: listing on the OTCQB and the legal and regulatory fees for implementing various shareholder and governance protections such as a Shareholder Rights Plan at the 2014 AGM.

Promotion and travel expense increases for the comparable periods to Q3-FYE'15 and YTD-FYE'15 primarily relate to flights and accommodation costs, reflecting both the Company's efforts to broaden its outreach to Canadian and U.S. investors, and the Company's financing efforts.

The Share-based compensation increase for the comparative quarters of $104,096 and for the nine month periods of $101,755 reflects the awarding of share options at the post-AGM board meeting in October 2014, which was late in Q2-FYE'15. Awards were made to employees and officers of the Company as well as to the Board for their service. The Board changed its compensation plan following the AGM, which allowed the directors to elect to take more of their compensation in shares rather than cash.

c) Sales and Marketing ("S&M") Expenses

Table 5 provides a breakdown of S&M expenses by major expense types for the comparable three and nine month fiscal periods ended January 31. The increased availability of funding enabled the Company to continue to ramp up the business development activities it started in the prior quarter and as reflected in the line item increases for the comparable nine month period.

The Marketing and travel expense increase, quarter over quarter, and for the comparable nine month periods, relates to the number of conferences attended as well as the number of parties participating at such forums in support of licensing and business development efforts.

The increase in Professional fees relates primarily to the use of consultants for support services on licensing efforts for COTI-2 and in support of other business development activities.

*Table 5: S&M Expenses – Comparative Periods Ended January 31*

| | Q3-FYE'15 | Q3-FYE'14 | Change |
|---|---|---|---|
| Salaries and benefits | $ - | $ - | $ - |
| Marketing and travel | 33,167 | 17,304 | 15,863 |
| Professional fees | 47,000 | 22,000 | 25,000 |
| Other | 409 | 378 | 31 |
| Total | $ 80,576 | $ 39,682 | $ 40,894 |

| | YTD - FYE'15 | YTD - FYE'14 | Change |
|---|---|---|---|
| Salaries and benefits | $ - | $ (279) | $ 279 |
| Marketing and travel | 98,622 | 46,615 | 52,007 |
| Professional fees | 91,750 | 38,000 | 53,750 |
| Other | 889 | 482 | 407 |
| Total | $ 191,261 | $ 84,818 | $ 106,443 |

d) Investment Tax Credits ("ITC")

ITC income, quarter over quarter, was relatively flat but shows an increase of $63,278 year to date related to an increase in eligible scientific research and experimental development ("SR&ED") expenditures and to a higher tax credit rate for the provincial jurisdiction in which the expenses were incurred. SR&ED expenditures increased $185,154 from $364,821 for the nine months ending Q3-FYE'14 to $549,975 for the nine months ending Q3-FYE'15.

e) Interest Expense

The increase in interest expense, quarter over quarter and year to date, relates primarily to the 10% interest expense on a $400,000 Debenture issued in February 2014 that did not exist in Q3-FYE'14 and the related accretion of the financing expense associated with its issuance.

f) Foreign exchange gain

The Company closed a private placement financing that was priced in USD as discussed under Liquidity and Capital Resources below. Canadian subscribers to the financing were permitted to settle in CAD equivalent rather than USD. As a result of the financing, and the decline in the relative exchange rate during the quarter (January 31, 2015, 1 USD = 1.2711 CAD, October 31, 2014, 1 USD = 1.1271 CAD), the Company had an unrealized foreign exchange gain as a result of holding $511,639 USD at the quarter end.

## Financial Results Quarterly Summary

Table 6 summarizes the financial results of the Company by quarter for the past two fiscal years.

*Table 6: Summary of Quarterly Financial Results*

| FYE 2015 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Year to Date |
|---|---|---|---|---|---|
| Revenue | $ - | $ - | $ - | $ - | $ - |
| Loss | (970,795) | (946,204) | (949,503) | - | (2,866,502) |
| Loss per common share | $ (0.01) | $ (0.01) | $ (0.01) | $ - | $ (0.03) |

| FYE 2014 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Full Year |
|---|---|---|---|---|---|
| Revenue | $ - | $ - | $ - | $ - | $ - |
| Loss | (500,052) | $ (598,220) | (671,386) | (1,226,521) | (2,996,179) |
| Loss per common share | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.03) |

| FYE 2013 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Full Year |
|---|---|---|---|---|---|
| Revenue | $ 3,404 | $ 11,019 | $ 10,577 | $ 5,588 | $ 30,588 |
| Loss | (722,769) | (762,670) | (696,785) | (443,580) | (2,625,804) |
| Loss per common share | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.01) | $ (0.03) |

The majority of the variation by quarter across the years and quarterly year over year is explained by three expense categories as set out in Table 7. Specifically, the trends of R&D expenditures and G&A expenditures, and the timing of share-based compensation have the greatest effect on swings in total expense in any given quarter and between quarters.

In FYE 2014, R&D expense was steady in the first two quarters but jumped in Q3-FYE'14 and significantly increased in Q4-FYE'14. R&D spending declined somewhat in FYE'15 from Q4-FYE'14 but these quarters were the second, third and fourth largest R&D expenditure quarters in the past eight quarters. The availability of funding has been the major driver of R&D spending levels across the quarters.

G&A expense has trended upward since Q1-FYE'14 reflecting the increasing use of consultants following staff reductions in fiscal 2012 and 2013. This trend continued in Q1-FYE'15 with major efforts in this quarter and in the prior Q4-FYE'14 on U.S. market education about the Company and preparations for a U.S. financing. Both quarters reflect non-cash expense for financial advisory services paid through the issuance of common share purchase warrants (Q1-FYE'15 – $265,200, Q4-FYE'14 – $220,500).

The overall trend line for the operating expenses in fiscal 2013 was relatively consistent for the first three quarters with a range of $707,000 to $775,000. Operating expenses declined significantly in Q4-FYE'13 compared to the earlier fiscal 2013 quarters to $448,000 as management moved to conserve

cash. Individually, the major expense areas also reflected this trend with both G&A and R&D expense declining significantly in Q4-FYE'13 and responsible for much of the Q4-FYE'13 decline.

*Table 7: Selected Quarterly Expense Categories* [(1)]

| FYE 2015 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Year to Date |
|---|---|---|---|---|---|
| General and administration | $ 693,846 | $ 512,570 | $ 418,373 | $ - | $ 1,624,789 |
| Research and product development | 234,841 | 355,101 | 345,520 | - | 935,462 |
| Investment tax credit | (46,021) | (39,576) | (26,233) | - | (111,830) |
| Share-based compensation | 24,928 | 28,860 | 165,627 | - | 219,415 |
| Total of expense categories | 907,594 | 856,955 | 903,286 | - | 2,667,835 |
| Total expense for the quarter | $ 1,018,907 | $ 987,533 | $ 980,703 | $ - | 2,987,143 |
| Expense categories as a % of total expense | 89.1% | 86.8% | 92.1% | 0.0% | 89.3% |

| FYE 2014 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Year to Date |
|---|---|---|---|---|---|
| General and administration | $ 351,377 | $ 409,372 | $ 418,587 | $ 599,659 | $ 1,778,995 |
| Research and product development | 133,144 | 124,050 | 183,411 | 593,812 | 1,034,417 |
| Investment tax credit | (7,093) | (13,606) | (27,853) | (69,561) | (118,113) |
| Share-based compensation | 19,940 | 36,189 | 61,531 | 46,012 | 163,672 |
| Total of expense categories | 497,368 | 556,005 | 635,676 | 1,169,922 | 2,858,971 |
| Total expense for the quarter | $ 499,478 | $ 599,029 | $ 675,359 | $ 1,297,249 | $ 3,071,115 |
| Expense categories as a % of total expense | 99.6% | 92.8% | 94.1% | 90.2% | 93.1% |

| FYE 2013 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Year to Date |
|---|---|---|---|---|---|
| General and administration | $ 397,091 | $ 398,046 | $ 349,800 | $ 308,058 | $ 1,452,995 |
| Research and product development | 266,995 | 239,587 | 193,284 | 91,551 | 791,417 |
| Investment tax credit | (35,733) | (32,920) | (32,214) | (27,066) | (127,933) |
| Share-based compensation | 42,385 | 98,173 | 83,841 | 41,010 | 265,409 |
| Total of expense categories | 670,738 | 702,886 | 594,711 | 413,552 | 2,381,887 |
| Total expense for the quarter | $ 732,684 | $ 775,072 | $ 707,551 | $ 448,174 | $ 2,663,481 |
| Expense categories as a % of total expense | 91.5% | 90.7% | 84.1% | 92.3% | 89.4% |

(1) The presentation noted in this table does not conform to the functional presentation in the Company's interim and annual financial statements. Share-based compensation included in General and administration in the financial statements has been removed from the functional disclosure and shown separately in this table.

## Liquidity and Capital Resources

Table 8 summarizes the changes in capital resources for the nine month periods ending Q3-FYE'15 and Q3-FYE'14. At the end of Q3-FYE'15, the Company had cash, cash equivalents and short-term investments of $2,425,481 compared to $461,445 in capital resources at the end of Q3-FYE'14 reflecting a significant increase in the Company's cash position between the comparable periods of $1,964,036. This increase in cash between the periods reflects the substantial increase in financing activities during the intervening year with private placement financings closed in February, April, June, and October

2014. This increased funding has enabled the Company to move forward with its operating programs and particularly the development of COTI-2 toward its IND filing.

*Table 8: Summary of Changes in Capital Resources* [(1)]

| | Q3-FYE'15 | Q3-FYE'14 |
|---|---|---|
| Used in: | | |
| Operating activities | $ (2,322,442) | $ (1,297,174) |
| Investing activities | (90,177) | (104,927) |
| Decrease in capital resources before financing activities | (2,412,619) | (1,402,101) |
| Net cash proceeds from issuance of common shares and warrants | 3,865,569 | 1,643,366 |
| Issuance cost of warrant amendments | (10,161) | (6,966) |
| Investment tax credit recoveries | 72,726 | 64,649 |
| Interest paid | (34,199) | (1,347) |
| Increase in capital resources | 1,481,316 | 297,601 |
| Less: unrealized foreign exchange loss on capital resources | 113,890 | (5,503) |
| Capital resources - beginning of period | 830,275 | 169,347 |
| Capital resources - end of period | $ 2,425,481 | $ 461,445 |

(1) The presentation used in this table does not conform to the presentation in the Company's Interim and Annual Financial Statements as set out in the Statements of Changes in Cash Flows ("SCF"). The details presented in the SCF have been condensed in this presentation to highlight the significance of financing efforts to the ongoing operation of the Company and to include short-term investments as part of the Company's capital resources.

Financing Activities During Q3-FYE'15

The Company obtained $2,504,220 in net financing during the quarter from the closing of private placements and the exercise of warrants and options as summarized in Table 9. This financing when combined with financing activities during the first two quarters has resulted in net funds raised year to date totaling $3,865,569 as highlighted in Table 8. These financings reflected the Company's continuing efforts to obtain sufficient cash to fund operations through the Phase 1 human trial of COTI-2 and modestly advance other programs.

*Table 9: Summary of Cash Raised by Financing Source*

| Date | Financing source | Gross cash proceeds | Cash costs | Net cash proceeds |
|---|---|---|---|---|
| Nov 6/14 | Second tranche of fall private placement | $ 1,343,177 | $ 112,825 | $ 1,230,352 |
| Nov 25/14 | Third tranche of fall private placement | 790,433 | 66,724 | 723,709 |
| Dec 19/14 | December 2014 private placement | 247,350 | 15,895 | 231,455 |
| Various | Warrant exercises | 292,251 | 1,481 | 290,770 |
| Jan 28/15 | Option exercise | 28,000 | 66 | 27,934 |
| | | $ 2,701,211 | $ 196,991 | $ 2,504,220 |

The fall private placement was priced at $0.23 USD for a securities unit consisting of one common share and one whole warrant exercisable within five years from the date of issuance. As a result, the Company is carrying as part of its cash balance ~ $500k USD. These funds provide some currency hedge against the future Phase 1 human trial costs with MD Anderson that would be incurred in USD. The warrants are priced at $0.34 USD resulting in the potential to receive additional USD upon their exercise. The impact of currency exposure is discussed in more detail at Foreign Exchange Exposure.

Working Capital

The Company's working capital at January 31, 2015 was $1,823,828 compared to $29,141 at April 30, 2014 ("FYE'14") as set out in Table 10. The increase of $1,794,687 since FYE'14 reflects the positive impact of the private placement financings completed in Q3-FYE'15 and year to date. While this level of working capital is much improved since FYE'14, it highlights the need for additional financing to fund operations, and efforts in this regard are discussed under Financing Activities Subsequent to Q3-FYE'15.

*Table 10: Summary of Working Capital Change*

| | January 31, 2015 | April 30, 2014 | Change |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ 2,159,886 | $ 830,275 | |
| Short-term investments | 265,595 | - | |
| Investment tax credits and other receivables | 206,375 | 149,754 | |
| Prepaid expenses and deposits | 114,570 | 79,673 | |
| | 2,746,426 | 1,059,702 | 1,686,724 |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 523,435 | 683,895 | |
| Debenture | 399,163 | 346,666 | |
| | 922,598 | 1,030,561 | (107,963) |
| Working capital | $ 1,823,828 | $ 29,141 | $ 1,794,687 |

Current assets continue to remain liquid and there are no restrictions on the use of these assets. Cash equivalents are invested in instruments with maturities of three months or less. The short-term investment is a single cashable GIC maturing on December 1, 2015. The current assets increased $1,686,724 in Q3-FYE'15 compared to FYE'14 primarily due to an increase in cash, cash equivalents and short-term investment. Current liabilities decreased $107,963 at Q3-FYE'15 from FYE'14 primarily due to a reduction in R&D liabilities since FYE'14. The Debenture matured on Feb 5, 2015, shortly after the quarter end and was repaid along with the remaining accrued interest. The Company was able to offset this $400,000 cash payout by closing a private placement financing on February 17, 2015 (see Financing Activities Subsequent to Q3-FYE'15).

The Company has determined that the carrying value of its financial assets and liabilities approximate their fair values because of the relatively short periods to maturity of these instruments and their

capacity for prompt liquidation. The Company does not have any derivative financial instruments, nor does it engage in hedging transactions, as foreign currency risk exposure up to Q3-FYE'15 has been limited.

The Company's contractual obligations to third parties at the end of Q3-FYE'15 are limited to the current fiscal year as summarized in Table 11.

*Table 11: Contractual Obligations*

| Obligation | Total | 2015 | 2016 |
|---|---|---|---|
| Research and development contracts | 189,035 | 189,035 | - |
| Total contractual obligations | $ 189,035 | $ 189,035 | $ - |

Financing Activities Subsequent to Q3-FYE'15

a) Private Placement

On February 17, 2015, the Company completed a non-brokered private placement of 2,129,374 units for gross proceeds of $542,937. Each Unit consisted of one common share and one common share purchase warrant of the Corporation. Each warrant is exercisable for one common share of the Corporation at an exercise price of $0.38 per share for a period of 60 months from the date of issue. The Corporation paid aggregate finder's fees of $41,399 and issued 162,350 compensation warrants exercisable to acquire one common share at an exercise price of $0.29 for a period of 60 months from the date of issue.

The expiry date of both the warrants and compensation warrants will be reduced to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrants or the compensation warrants (the "Premium Trading Days"), the closing price of the common shares listed on the TSX Venture Exchange equals or exceeds three times the exercise price of the respective warrants or compensation warrants issued in the Offering. The reduced exercise period will begin seven calendar days after the tenth Premium Trading Day.

The common shares and warrants comprising the Units, as well as the common shares issuable upon the exercise of the warrants are subject to a resale restriction expiring on June 18, 2015, in accordance with applicable securities laws and the policies of the TSXV.

b) Warrant Exercises

The Company realized total gross proceeds of $61,866 in February and March related to the exercise of an aggregate of 302,777 warrants consisting of 202,777 compensation warrants and 100,000 common share purchase warrants.

As highlighted in Outstanding Share Information, the Company has the potential to realize substantial financing through the exercise of warrants and share options with 59,894,926 warrants and 7,025,124

share options outstanding as of March 19, 2015. To realize on some or all of this potential, the Company will strategically need to increase its share price from its closing price on the TSXV on January 31, 2015 of $0.25. This must be accomplished primarily through the achievement of COTI-2 development milestones and the communication of the potential impact of COTI-2 on the treatment of cancer to a broad audience so that the underlying value of the Company is realized through an increase in the share price.

While the large warrant balance has the potential to generate financing for the Company's operations, it can also be a detriment to attracting open market participation from various investors and in particular institutional investors who see the warrant position as a limiting factor on the Company's share price for a period of time until the warrants are either exercised or expire. The Board of Directors recognized this issue and the potential financing through exercise and communicated to the market during the quarter in various press releases that it would no longer be extending the expiry date of out-of-the-money warrants as they neared their expiry date. In this regard, an aggregate of 11,302,632 warrants, consisting of 10,120,632 common share purchase warrants exercisable at $0.26, 1,150,000 exercisable at $0.20, and 32,000 compensation warrants exercisable at $0.20, expired in February and March 2015 after the end of the quarter. Share purchase options totaling 140,425 and exercisable at $0.47 also expired in February 2015.

Going Concern Risk

The Company has formulated goals for the remainder of fiscal 2015 and for fiscal 2016 to advance its lead oncology compound, COTI-2, into a Phase 1 human trial and thereby enhance its attractiveness to potential licensees and to move other revenue initiatives and development projects forward as resources permit. For COTI, the material uncertainties related to working capital and cash resources raise a significant concern about the ability of the Company to accomplish its goals. These uncertainties highlight that the Company has not yet established commercial operating revenues to fund its operations and accordingly operating cash flows continue to be negative.

In order to accomplish its goals and alleviate the going concern risk, the Company continues to take steps to obtain additional cash resources. This includes actively pursuing sources of financing, including but not limited to, raising capital in the public market and securing government grants, and seeking potential customers, partners, and collaborators as a means of furthering molecule development and generating cash from revenue streams. As evidence of these efforts, the Company closed a private placement as described under Financing Activities Subsequent to Q3-FYE'15 that raised gross proceeds of approximately $542,937. The Company has discretion with many of its expenditure activities and plans to manage these activities in fiscal 2015 and 2016 within the limits of available cash resources. While the Company has a history of obtaining financing, and is working diligently to obtain the required resources, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate this going concern risk in future periods.

## Off-Balance Sheet Arrangements

The Company has not historically utilized, nor is it currently utilizing any off-balance sheet instruments.

## Foreign Exchange Exposure

The Company has historically had occasion to enter into R&D contracts denominated in foreign currencies. These contracts have primarily been in United States dollars ("USD") but have also included Euros ("EUR"), British pound sterling ("GBP") and Swiss Francs ("CHF") and, as a result, the Company has exposure to risk from fluctuations in exchange rates between the CAD and such currencies. These contracts have to date individually been valued at less than $100,000 CAD. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause fluctuations in the Company's operating results and cash flows.

The amount of this exposure increased during the third quarter with a foreign currency gain recorded of $50,308 (January 31, 2014 – $2,581) resulting from the receipt of USD in a USD denominated financing that closed in the quarter (see Financing Activities During Q3-FYE'15).

The Company's exposure to foreign currency risk based upon foreign currency amounts expressed in CAD at the quarter-end and compared to FYE'14 was as follows:

*Table 12: Financial Assets by Currency Expressed in CAD*

| As at January 31, 2015 | | | | |
|---|---|---|---|---|
| | CAD | USD | Other | Total |
| Cash and cash equivalents | $ 1,509,528 | $ 650,154 | $ 204 | $ 2,159,886 |
| Other receivables | 205,051 | 1,070 | - | 206,121 |
| Short-term investments | 265,595 | - | - | 265,595 |
| Accounts payable and accrued liabilities | (456,665) | (40,714) | (26,056) | (523,435) |
| Debenture | (399,163) | | | (399,163) |
| | $ 1,124,346 | $ 610,510 | $ (25,852) | $ 1,709,004 |

| As at April 30, 2014 | | | | |
|---|---|---|---|---|
| | CAD | USD | Other | Total |
| Cash and cash equivalents | $ 760,491 | $ 69,547 | $ 237 | $ 830,275 |
| Other receivables | 615 | - | - | 615 |
| Accounts payable and accrued liabilities | (604,453) | (60,664) | (9,203) | (674,320) |
| Debenture | (346,666) | - | - | (346,666) |
| | $ (190,013) | $ 8,883 | $ (8,966) | $ (190,096) |

The Company will be incurring USD denominated expenses related to its announced Phase 1 human trial expected to be conducted in the United States commencing in calendar 2015 as well as other USD

expenses. The USD cash position is expected to provide some hedge against these USD costs. In addition, the Company has warrants exercisable at USD prices that could generate additional USD. The amount and timing of such exercise is not presently determinable.

## Related Party Transactions

Material transactions with related parties that occurred during Q3-FYE'15 were in the ordinary course of business and related to the following:

a) A director participated, directly and beneficially, in the second and third tranches of the private placement that closed on November 6 and November 25, 2014, respectively. The aggregate investment was approximately $65,703 CAD to acquire 254,110 units priced at $0.23 USD per unit and representing approximately 3.1% of the total gross proceeds from these two tranches; and,

b) The Company amended warrants on November 13 and December 16, 2014 that were nearing expiry to extend the life of the warrants for all warrant holders of the respective expiring warrants. A director participated in the private placement financings that resulted in the issuance of these warrants and accordingly had their warrants amended as part of the amendment activity.

## Outstanding Share Information

Outstanding share information at the close of business on March 19, 2015 is set out in Table 13.

*Table 13: Outstanding Share Information*

| | Outstanding | Expiry Date |
|---|---|---|
| Common shares | | |
| Authorized - unlimited | | |
| Issued | 117,679,987 | |
| Diluted [(1)] | 184,350,037 | |
| Weighted average outstanding [(2)] | 107,516,874 | |
| Common share warrants | | |
| $0.37 warrants | 1,446,481 | Mar 31/15 |
| $0.55 warrants | 129,019 | Mar 31/15 |
| $0.30 warrants | 10,625,000 | Apr 23 - May 26/15 |
| $0.26 warrants | 2,412,397 | Jul 31/15 |
| $0.26 warrants | 2,003,498 | Aug 20/15 |
| $0.26 warrants | 3,569,458 | Jan 29/16 |
| $0.30 warrants | 12,500,000 | Mar 15/16 |
| $0.28 warrants | 3,356,250 | Apr 29/16 |
| $0.22 compensation warrants | 242,000 | Apr 29/16 |
| $0.28 warrants | 5,595,135 | Jun 2/16 |
| $0.22 compensation warrants | 219,110 | Jun 2/16 |
| $0.26 warrants | 769,230 | Feb 4/19 |
| $0.19 USD compensation warrants | 3,000,000 | Apr 11 - Jun 6/19 |
| $0.34 USD warrants | 10,177,760 | Oct 16 - Nov 5/19 |
| $0.26 USD compensation warrants | 567,864 | Oct 16 - Nov 24/19 |
| $0.38 warrants | 970,000 | Dec 18/19 |
| $0.29 compensation warrants | 20,000 | Dec 18/19 |
| $0.38 warrants | 2,129,374 | Feb 16/20 |
| $0.29 compensation warrants | 162,350 | Feb 16/20 |
| | 59,894,926 | |
| Common share stock options | | |
| $0.14 - $0.25 | 4,000,089 | Apr 30/15 - Dec 4/18 |
| $0.26 - $0.35 | 2,775,035 | Feb 11/15 - Oct 21/19 |
| | 6,775,124 | |

[(1)] Assumes conversion of all outstanding common share stock options and warrants.

[(2)] Weighted average shares outstanding calculated from May 1, 2014 to Mar 19, 2015.

## Industry and Economic Risk Factors Affecting Performance

The biotechnology industry is regarded as high risk given the uncertain nature of developing drug candidates and limited access to capital. On the other hand, success in this industry can be highly rewarding. COTI operates in the discovery, preclinical development, and Phase 1 stages of the drug development cycle. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecules discovered using the Company's drug discovery technology either for its own account or in R&D collaboration agreements for others, and in utilizing the technology to provide profiling and screening services on a fee for service basis. The major industry and economic risk factors affecting realization of this potential are reviewed in the Company's 2014 Annual Information Form.

The four risk categories having the greatest effect on the Company during Q3-FYE'15 and expected to affect operations for the balance of the year are listed and discussed as follows:

1. uncertainties related to research
2. the lack of product revenues;
3. securing licensing agreements; and,
4. access to capital.

Uncertainties Related to Research

Like other biotech and pharmaceutical companies, COTI's research programs are based on scientific hypotheses and experimental approaches that may not lead to desired results. In addition, the timeframe for obtaining test results may be considerably longer than originally anticipated, or may not be possible given time, resources, and financial, strategic, and scientific constraints. Success in one stage of testing is not necessarily an indication that a particular compound or program will succeed in later stages of testing and development. It is not possible to guarantee, based upon studies in *in vitro* models and in animals, whether any of the compounds made for a therapeutic program will prove to be safe, effective, and suitable for human use.

Each compound will require additional research and development, scale-up, formulation, and extensive clinical testing in humans. Development of compounds may require further investigation into the mechanism of action ("MOA") where this is not fully understood as many compounds have multiple MOAs. The discovery of unexpected toxicities, lack of sufficient efficacy, poor physiochemical properties, unacceptable ADME properties, drug metabolism and pharmacokinetics, inability to increase scale of manufacture, market attractiveness, regulatory hurdles, as well as other factors, may make COTI's therapeutic targets, or product candidates unattractive or unsuitable for human use and COTI may abandon its commitment to that program, target, or product candidate. COTI believes its CHEMSAS® process serves to mitigate or reduce these risks compared to traditional historic approaches by virtue of profiling across many variables in identifying compounds with high probability of successfully becoming drugs, however, its predictions remain a probability only and failure can occur.

These uncertainties and the attendant delays were experienced by COTI's lead compound, COTI-2, during the quarter as the IND, filing originally anticipated for September 2014 and delayed in a series of revised target dates remained unfiled at the quarter end. Despite these delays, COTI-2 continues to progress through the IND writing stage and is poised to move on into a Phase 1 human trial in the first half of calendar 2015. Success in this clinical trial will provide further support for the scientific validation of the CHEMSAS® technology platform's predictions but it is such delays that can affect the timing of achieving profitable operations and cause a continual need to seek financing.

Lack of Product Revenues

The revenue cycle for drug development is a long one; typically 5 to 10 years depending upon the point along development that monetization of the asset occurs. Since its inception to January 31, 2015, COTI has worked to develop relationships with prospective customers, and strived to obtain licensing and collaboration agreements for its own products and therapeutic targets of interest to partners. The continued development of COTI-2 and the nurturing of relationships with licensees concerning the strong scientific test results for the compound are critical to achieving the revenue realization stage. Accordingly, operating losses are expected to be incurred until revenues from upfront licensing, milestone and royalty payments are sufficient to fund continuing operations. COTI is unable to predict with any certainty when it will become profitable, or the extent of any future losses or profits. Without generating revenues and positive cash flows the Company will continually need to seek additional financing until such time as profitable operations occur.

Securing Licensing Agreements

The Company's ability to commercialize its products successfully will depend on its ability to negotiate licensing agreements with biotech or pharma companies for its compounds. This will first require meeting the scientific due diligence requirements of prospective customers. While continued positive test results for COTI-2 during fiscal 2014 and Q3-FYE'15 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date. Licensing discussions during fiscal 2015 continued to find interest in the compound but the novel nature of the compound and class has caused licensees to seek further proof of the mechanism of action through test results in humans.

While industry reviews of the productivity of pharmaceutical industry R&D spending in generating new compounds indicates major pharmaceutical company pipelines have dramatically underperformed in producing new drugs for the R&D dollars invested, there is no certainty that licensing deals can be negotiated for COTI-2 or COTI's other compounds. Major pharmaceutical companies are seeking assets with as low a risk profile as possible hence a preference for later stage clinical compounds with lower risk profiles having successfully reached as far as, or through, Phase 3 clinical trials. While it may seem a reasonable strategy for a major pharmaceutical company to have a drug development pipeline across the entire development cycle, there is no certainty that COTI can be a licensed provider of compounds to the preclinical or early clinical stage segment of such a pipeline. There is also no certainty that COTI

can obtain licensing terms that are acceptable in indicating a commercially viable market for its products.

Access to Capital

The Company continually monitors its cash resources to support its R&D programs in an effort to move its compounds, particularly COTI-2, as rapidly as possible through development. These efforts were highlighted under Liquidity and Capital Resources where the Company noted the financial challenge that could hinder project development and the Company's efforts to generate needed capital. Historically, the Company has focused on the Canadian marketplace, however, the U.S. capital markets are seen as more receptive to life science company investment. Accordingly, the Company has increased its access to funding in this market by obtaining a listing on the OTCQB and by engaging U.S. investment financial advisory services. There is no certainty that these efforts will prove successful in increasing capital available from more life-science knowledgeable investors. In seeking to raise equity capital, COTI will have to price such equity offerings ("Offering") in relation to the market's current perception of value.

Accordingly, the Offering price may not be indicative of the market value for COTI after the Offering, which value may rise or decline in relation to the value reflected in the issue price of the Offering. If additional funding cannot be obtained, COTI may be required to delay, reduce, or eliminate one or more of its R&D programs or obtain funds through corporate partners or others who may require it to relinquish significant rights to its product candidates or obtain funds on less favourable terms than COTI would otherwise accept. Despite the Company's financing efforts, there can be no assurance additional funding can be obtained.

## Use of Non-GAAP Financial Measures

Management has included a non-GAAP financial measure, Capital Resources, to supplement information contained in the MD&A. This non-GAAP measure does not have any standardized meaning prescribed under IFRS and therefore it may not be comparable to similar measures when presented by other issuers.

Capital Resources is defined and calculated by the Company as cash, cash equivalents and short-term investments. This differs from IFRS disclosure where cash and cash equivalents are included in the Statement of Financial Position as cash and the Statement of Cash Flows is reconciled to this cash balance. Under IFRS short-term investments are disclosed separately in the Statement of Financial Position and changes in short-term investments are disclosed separately in the Statement of Cash Flows in determining cash. The short-term investment carried on the Company's books at the end of the third quarter is a guaranteed investment certificate cashable at any time up to its maturity date. With such high liquidity, this short-term investment is considered by management as a readily available source of capital. The use of Capital Resources and the inclusion of short-term investments in this measure sets out the Company's view on readily available cash, which Management believes provides a more

meaningful measure with respect to the liquidity of the Company than simply cash and cash equivalents alone.

*Table 14: Reconciliation to Capital Resources*

| | January 31, 2015 | January 31, 2014 |
|---|---|---|
| Cash and cash equivalents | $ 2,159,886 | $ 461,445 |
| Short-term investments | 265,595 | - |
| Capital resources | $ 2,425,481 | $ 461,445 |

## Changes in Accounting Policies

Details regarding the adoption of new accounting pronouncements in FYE'15 and future accounting policy changes affecting the Company's future financial statements based upon new accounting pronouncements are set out below.

a) Adoption of new accounting pronouncements:

The IASB issued new standards and amendments or interpretations to existing standards that were effective at the time of commencing the Company's fiscal year beginning May 1, 2014. The Company adopted these new standards as described below.

i. IAS 32 – Financial Statements: Presentation:

In December 2011, the IASB amended IAS 32 related to offsetting financial assets and financial liabilities. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if at the time of the transactions that right is not contingent on a future event; and, enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The adoption of this amended standard had no impact on the financial statements to the end of Q3-FYE'15 based upon the Company's current operations.

ii. IAS 36 – Impairment of Assets:

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). These amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment

loss has been recognized or reversed. The amendments affect certain disclosure requirements only and the adoption of this amended standard had no impact on the financial statements to the end of Q3-FYE'15 based upon the Company's current operations.

b) Recent accounting pronouncements not yet adopted:

Certain pronouncements have been issued by the IASB or the International Financial Reporting Interpretations Committee that are mandatory for annual periods beginning subsequent to the April 30, 2014 year-end. Many of these updates are not applicable to COTI or are inconsequential to the Company and have been excluded from the discussion below. The remaining pronouncements are being assessed to determine their impact on the Company's results and financial position as follows:

i. IFRS 9 – Financial Instruments:

In November 2009, the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013).

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. These two amended standards effectively will eliminate the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables.

The Company is currently evaluating the impact of these amendments on its financial statements. The full impact of this standard will not be known until the amendments addressing impairments, classification, and measurement have been completed. When these projects are completed, an effective date will be announced by the IASB. The Company does not intend to early adopt IFRS 9 (2009), IFRS 9 (2010), or IFRS 9 (2013) in its financial statements, as these amendments are not effective until January 1, 2018.

ii. IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2017 with retroactive application. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on May 1, 2017. The extent of the impact of adoption of the standard has not yet been determined, as the Company does not have contract revenues at present.

iii. Annual Improvements to IFRS (2010-2012) and (2011-2013) cycles:

In December 2013, the IASB issued narrow-scope amendments to nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Not all amendments to the nine standards are applicable to the Company's business. The amendments which may affect the Company now or in the future, based upon the Company's current operations, and the clarifications to the respective standards are as follows:

- Definition of "vesting condition" in IFRS 2 Share-based payment;
- Classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements in IFRS 3 Business Combinations;
- Measurement of short-term receivables and payables and scope of portfolio exception in IFRS 13 Fair Value Measurement;
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets; and,
- Definition of "related party" in IAS 24 Related Party Disclosures.

Special transitional requirements have been set for amendments to IFRS 2, IAS 16, and IAS 38. Most amendments apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on May 1, 2015. The Company does not expect the amendments to have a material impact on the financial statements based upon its assessment to the end of Q3-FYE'15.