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

Fiscal 2016 – Second Quarter
for the three and six month periods ended October 31, 2016

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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 six month periods ended October 31, 2016 and has been prepared with all information available up to December 16, 2016. The MD&A is intended to assist readers in understanding the dynamics of the Company's business and the key factors underlying its financial results. The Audit Committee of the Company approved the content of this MD&A on December 16, 2016.

This analysis should be read in conjunction with the unaudited condensed interim financial statements (the "Interim Financial Statements") and notes thereto for the three and six month periods ended October 31, 2016. These Interim Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and with International Accounting Standard 34: Interim Financial Reporting.

All dollar amounts in this MD&A are expressed in Canadian dollars ("CAD") unless otherwise noted.

The Company's quarterly interim reports for fiscal 2016, Annual Financial Statements, and additional supplementary historic 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.

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;
- The continued advancement and positive outcomes from the Company's Phase 1 clinical trial with COTI-2, the Company's lead oncology drug candidate, in gynecological cancers that was in progress at the October 31, 2016 quarter-end;
- An ability to further enhance and add features to the CHEMSAS® technology or incorporate advances in artificial intelligence technologies for internal and collaborative purposes;
- The ability to obtain patent protection for the Company's compounds and other intellectual property;
- An ability to attract and retain skilled and experienced personnel and to support research and development; and,
- An ability to establish preferred supplier relationships with reputable and reliable third party clinical research organizations.

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Description of Business	• Plans to further advance COTI-2 in the Phase 1 clinical trial in fiscal 2017 for potential dramatic change in the treatment of certain cancers • Plans to establish collaborations to expand the applications of the CHEMSAS® technology • Plans to seek strategic collaborations to advance its pipeline • Plans to further develop ROSALIND™
Operational Progress and Outlook	• Plans to obtain additional funding • Intent to advance the Phase 1 clinical trial with MD Anderson and Northwestern University in fiscal 2017 and 2018 • Pursuing new cancer indications and combination studies for COTI-2 • Plans to conduct further testing on COTI-219 to position an IND filing in 2017 • Further development of the ROSALIND™ technology
Liquidity and Cash Resources	• Plans to seek additional financing resources • Plans to raise capital in the U.S. • Expectation of additional investments in patents and computer hardware and software • Commitments to future contract expenditures
Foreign Exchange Exposure	• Expectation of exposure to currency fluctuations resulting from clinical trial costs being undertaken with U.S.-based investigators and institutions

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Industry and Economic Risk Factors Affecting Performance	• Expectation of continued losses until a revenue transaction is secured • Need to negotiate and consummate future licensing and collaboration agreements for our lead program, pipeline assets and platform technology • Need to raise additional capital through different avenues • Risks associated with the outcome of the ongoing clinical trial
Changes in Accounting Policies	• The adoption in fiscal 2018 of new accounting standards issued by the International Accounting Standards Board

The Management of COTI considers the assumptions on which the FLS are based to be reasonable. Management cautions the reader that there are many risk factors, including those specifically discussed later in the MD&A, which are of particular importance to the assumptions above, and actual results could differ materially from those expressed or implied in the FLS and as such, undue reliance should not be placed on any individual FLS.

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 Canadian-based company with offices located in London, Ontario and Boston, Massachusetts. The Company was formed from an 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 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 identified 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.

Description of Business

COTI is a clinical stage biotechnology company built on a dynamic artificial intelligence ("AI") platform for drug development and the modeling of biological systems. The Company's corporate structure allows for strategic focus in the following areas:

a) COTI-2

COTI-2 is the Company's lead oncology drug compound, which received investigational new drug ("IND") status from the United States Food and Drug Administration ("FDA") in May 2015. COTI-2 is an oral small molecule having a novel p53-dependent mechanism of action demonstrating selective and potent anti-cancer activity. A Phase 1 clinical trial with COTI-2 in gynecological cancers is currently in progress at the University of Texas, MD Anderson Cancer Center ("MDACC") in Houston, and the Lurie Cancer Center at Northwestern University ("NWU") in Chicago.

Extensive preclinical studies demonstrated COTI-2's ability to restore mutant p53 function and thus induce cancer cell death in many common p53 mutations. COTI-2 is being developed as an oral treatment for solid tumors; it is easily synthesized and has good in vitro and in vivo efficacy against multiple human cancers including small cell lung, non-small cell lung, brain, cervical, colon, endometrial, head and neck, ovarian, pancreatic, and triple negative breast. The Company believes COTI-2's important protein target, low toxicity, effectiveness in preclinical studies when used in combination with approved drugs, and potential as an oral agent for long term outpatient therapy, supports a dramatic change in the treatment of susceptible cancers.

b) CHEMSAS® and Drug Candidate Pipeline

The Company's proprietary AI platform, CHEMSAS®, provides us with the opportunity to identify potential treatments for a broad range of serious diseases. CHEMSAS® is a computational platform that blends machine learning technologies and proprietary algorithms to more accurately predict biological activity from molecular structures. This technology accelerates the drug discovery process by identifying compounds with a higher probability of success for disease-specific targets.

The Company has built a pipeline of novel, proprietary, small molecules for specific disease targets with high morbidity and mortality rates, which currently have either poor or no effective therapies.

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. This service offering could provide prospective customers with an efficient, reasonably-priced approach for generating targeted discovery stage compounds while enhancing value to COTI and its shareholders.

c) ROSALIND™

Currently in the validation phase of development, ROSALIND™ is a smart data platform for realizing the promise of personalized medicine for cancer patients. The goal of ROSALIND™ is to identify personalized treatment options based on the genetic profile of the patient's cancer and to provide these to the oncologist for consideration in treating their patient. The validation study currently in progress aims to build a patient database of 100 individuals, reflecting the evaluation of outcomes from the ROSALIND analysis and its report recommendations. With the feedback from oncologists we will continue to enhance the informational content and report utility.

Operational Progress and Outlook

a) Operations

The Company's focus in the second quarter of fiscal 2017 was the continued progression of its Phase 1 clinical trial for the investigation of COTI-2 as a treatment in female patients with recurrent ovarian, fallopian tube, endometrial, or cervical cancer (the "Trial").

The Trial, identified as COTI2-101, is designed primarily to assess the safety and tolerability of COTI-2 and, by identifying a maximum tolerated dose ("MTD"), enable the determination of a recommended dose for the expansion phase of the Trial as well as a recommended Phase 2 dose ("RP2D") for future Phase 2 clinical trials.

The Company announced near the end of the first quarter that the dosing of all three patients in the third cohort of the trial had begun following the independent Dose Escalation Committee's review of the safety data from patients in the second cohort, and their unanimous approval to proceed with dosing of the third cohort.

The Trial is proceeding as expected and we will continue to inform our investors as we advance to increasing dose levels. Cohort 3 has taken us longer than anticipated. This is a result of working in a patient population where many of these women have advanced disease. In studies of this nature, some of these patients may experience disease progression while on the study. Another line of therapy is thus required and we must then replace that patient within the cohort.

While these remain early days in this dose escalation Trial, the Company is encouraged by the results to date and continues to work in close collaboration with MDACC and NWU to advance the Trial.

During the quarter, the Company continued its strategic efforts to broaden the number of oncology indications for COTI-2. This included further discussions with major research institutions in using COTI-2 for patients with recurrent squamous cell head and neck cancer ("HNSCC"), Li-Fraumeni Syndrome ("LFS"), a broad p53 basket study (a study that targets a specific genetic mutation regardless of the organ site where the cancer originated), and combination studies with currently approved oncology drugs.

With respect to the Company's other drug candidates, further testing was done to work toward a definitive understanding of the mechanism of action ("MOA") for COTI-219. Following this testing, the Company announced COTI-219 to be a novel oral small molecule targeting the mutant forms of KRAS. KRAS mutations occur in many cancers and represent a tremendous unmet medical need, making for a highly desirable drug target. These mutations are detected in up to one-fourth of all human cancers, particularly lung, colorectal, pancreatic, and thyroid cancers. Selectively targeting the mutant forms of KRAS without inhibiting wild type KRAS function has been the focus of intense research for over two decades with limited success. It is very encouraging that COTI-219, which is designed to be selective against the mutant form of KRAS, is shown to be efficacious in multiple pre-clinical tumor models. The data from these pre-clinical studies is very promising and the fact they were largely generated by world-renowned collaborators at prestigious cancer centers in the United States gives added confidence in the robustness and validity of the results. The Company believes COTI-219 has first-in-class potential and is planning to file an IND application in late fiscal 2017.

The Company also advanced the development of its ROSALIND™ platform during the quarter. We are progressing through a validation study to build a 100-patient database reflecting the evaluation of outcomes from the ROSALIND™ analysis and its report recommendations. With the feedback from oncologists we will continue to enhance the informational content and report utility.

b) Financing

The Company realized approximately $151,000 in net proceeds from the exercise of options by directors and employees during the quarter. Details are highlighted in "Liquidity and Cash Resources" where we also note the need for additional financing to fund operations in fiscal 2018 as the Company has a number of important objectives planned to drive the business forward. The primary objective is the successful advancement of the COTI-2 Trial. This funding is expected to come from a combination of sources but primarily:

i. the exercise of options and warrants; and,
ii. private or public financings with an emphasis on accredited and institutional investors with a focus on U.S.-based investors due to the primary location of potential customers for the Company's products and services.

The Company will also be looking at government funding, co-development project funding from interested partners, and a development partnership agreement for COTI-2 or one of its other assets.

Any delays in the progression of the COTI-2 Trial will influence the timing of cash outflows and affect the timing of additional financing requirements.

c) Strategic Reorganization

The Company completed an organizational review in the first quarter that culminated in the appointment of Alison Silva as the new President of the Company effective July 5, 2016. This

appointment was announced on June 15, 2016. Under the reorganization, the Company divided the roles of President and CEO, establishing two senior leadership positions. Ms. Silva assumed oversight responsibility for the business operations of the Company including its clinical trials program, Business Development strategies, Finance, Investor Relations, Human Resources and regulatory activities. Dr. Danter retained his responsibilities as the CEO and the Chief Scientific Officer of the Company, with responsibility for the science and technology platforms.

Subsequent to the end of the second quarter, on December 8, 2016, the Company announced the appointment of Ms. Silva as President and Chief Executive Officer effective January 1, 2017. Ms. Silva's appointment capped a succession process that began over two years ago. Dr. Danter will continue to serve as Chief Scientific Officer and both Ms. Silva and Dr. Danter will remain on the Company's Board of Directors.

Analysis of Financial Results Second Quarter Fiscal 2017

Summary financial information for the three and six month periods ended October 31, 2016 and 2015 (Q2-FYE'17, YTD-FYE'17 and Q2-FYE'16, YTD-FYE'16) is set out in Table 2.

Revenue

There was no revenue generated in the quarter, or year to date for fiscal 2017, nor in the comparative periods.

Expenses

Expenses increased from $969,787 for Q2-FYE'16 to $1,734,613 for Q2-FYE'17, an increase of $764,826. On a year to date basis, operating expenses increased by $1,192,906 from $1,872,653 in YTD-FYE'16 to $3,065,559 in YTD-FYE'17. This increase year to date occurred primarily from an increase in General and administration ("G&A") expense, and Research and product development ("R&D") expense. These increases were partially offset by a decrease in Sales and marketing ("S&M") expense, and an increase in Investment tax credits earned.

Table 2 – Summary Financial Information – Second Quarter Comparatives

	Three months ended		Six months ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Expenses (income):				
Research and product development	$ 742,594	$ 348,564	$ 1,356,799	$ 647,286
Sales and marketing	107,715	137,568	211,317	294,636
General and administration	922,913	504,613	1,576,610	959,669
Investment tax credits	(38,609)	(20,958)	(79,167)	(28,938)
	1,734,613	969,787	3,065,559	1,872,653
Loss before finance income (expense)	(1,734,613)	(969,787)	(3,065,559)	(1,872,653)
Finance income (expense):				
Interest and financing, net	11,920	3,022	24,053	5,123
Change in fair value of warrant liability (note 9)	949,218	24,575	(103,252)	(84,001)
Foreign exchange gain	25,189	3,329	81,409	27,550
	986,327	30,926	2,210	(51,328)
Loss and comprehensive loss	$ (748,286)	$ (938,861)	$ (3,063,349)	$ (1,923,981)
Loss per share:				
Weighted average shares outstanding	148,590,846	126,384,034	147,749,317	123,379,192
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

a) R&D Expense

Table 3 provides a breakdown of R&D expense by major expense types for the comparable three and six month fiscal periods ended October 31. The increase of $394,030 in R&D expense quarter over quarter and the increase of $709,513 year over year are primarily attributable to an increase in Clinical trial expenses. The Trial did not commence until the signing of the Clinical Trial Agreement in December 2015 and accordingly there were minimal direct expenses incurred related to the Trial during the comparable prior periods. Clinical trial expenses represented 49.7% and 43.9% of R&D expense during the quarter and year to date respectively, compared to only 2.8% for the year to date in fiscal 2016. The major clinical trial expenses year to date included $311,209 paid or accrued for work conducted by the two clinical trial sites and $248,890 to the Trial monitor.

Table 3: R&D Expense – Comparative Periods Ended October 31

	Q2-FYE'17	Q2-FYE'16	Change
Clinical trial expenses	$ 369,149	$ 518	$ (368,631)
In vivo/in vitro testing	112,422	41,830	(70,592)
Synthesis and miscellaneous R&D expenses	13,365	54,990	41,625
	494,936	97,338	(397,598)
Salaries and benefits	173,830	125,220	(48,610)
Other	34,584	30,540	(4,044)
Professional fees	10,455	12,766	2,311
Drug development consulting	2,690	72,026	69,336
	716,495	337,890	(378,605)
Share-based compensation	26,099	10,674	(15,425)
Total	$ 742,594	$ 348,564	$ (394,030)

	YTD-FYE'17	YTD-FYE'16	Change
Clinical trial expenses	$ 595,236	$ 18,443	$ (576,793)
In vivo/in vitro testing	185,316	86,280	(99,036)
Synthesis and miscellaneous R&D expenses	91,677	73,746	(17,931)
	872,229	178,469	(693,760)
Salaries and benefits	343,180	258,438	(84,742)
Other	70,231	42,438	(27,793)
Professional fees	16,826	19,668	2,842
Drug development consulting	11,871	126,651	114,780
	1,314,337	625,664	(688,673)
Share-based compensation	42,462	21,622	(20,840)
Total	$ 1,356,799	$ 647,286	$ (709,513)

Other expense categories that affected results in the quarter and year to date included increases for In vivo/in vitro testing, and Salaries and benefits, which were partially offset by decreases in Synthesis and miscellaneous R&D expenses, and Drug development consulting.

The increase in In vivo/in vitro testing expenditures, quarter over quarter, and year over year, is associated with further preclinical testing of COTI-2 and COTI-219. The studies on COTI-2 are targeted at deepening the understanding of the MOA on p53 mutations and the other cellular pathways affected by the drug. Similarly, the studies of COTI-219 seek to provide clarity on the MOA to enable the Company to advance the compound in preclinical testing and commence preparing the IND application for human trials.

An increase in Salaries and benefits between the quarterly periods and year to date reflects salary increases to R&D personnel and the addition of a ROSALIND™ Project Manager in Q1-FYE'17.

The decrease in Synthesis and miscellaneous R&D expenses quarter over quarter, and the increase on a year to date basis, primarily related to the timing of expenditures for work being done on one of the Company's preclinical development projects related to methicillin resistant staphylococcus aureus ("MRSA"). On a year to date basis, approximately 70% of the fiscal 2016 synthesis expense relates to the MRSA compounds compared to approximately 79.7% for fiscal 2017. The balance of expenditures in this category is attributed to the manufacturing of the COTI-2 Trial drug and synthesis work attributed to COTI-219.

The decrease in Drug development consulting of $114,780 year to date reflects expenditures related to preparing for the Trial, costs that did not recur in fiscal 2017 as the Trial commenced in Q3-FYE'16. These expenditures related to the IND preparation and submission process, and Trial preparation and readiness costs.

The increase in Other expense year to date reflects increases in R&D conferences attended and associated travel costs, intellectual property consulting, and the commencement of clinical trial liability insurance on September 1, 2015, which was not incurred for the entire comparable prior year period.

b) G&A Expense

G&A expense increased $616,941 year over year with all expense categories increasing except for Amortization and Professional fees. The most significant increases occurred in Salaries and benefits, and Share-based compensation, which together accounted for 81.8% of the overall increase. The Company undertook a strategic reorganization as announced on June 15, 2016, that resulted in splitting the Chief Executive Officer and President positions, and appointing a new President effective July 5, 2016. This reorganization added considerable experience and capabilities to the management team. The compensation related to these changes is primarily responsible for the increase in Salaries and benefits, and Share-based compensation expense incurred in the quarter and year to date comparisons as described below. The strategic reorganization also resulted in a decrease in other expenses during the quarter, primarily for consultants and their related marketing and travel expense.

Table 4 provides a breakdown of G&A expense by major expense types for the comparable three and six month fiscal periods ended October 31.

Table 4: G&A Expense – Comparative Periods Ended October 31

	Q2-FYE'17	Q2-FYE'16	Change
Salaries and benefits	$ 255,126	$ 100,921	$ (154,205)
Professional fees	164,200	197,575	33,375
Corporate governance	79,067	35,560	(43,507)
Marketing and travel	60,504	39,355	(21,149)
Amortization	55,363	42,033	(13,330)
Rent	19,064	10,200	(8,864)
Other	16,993	6,446	(10,547)
Insurance	16,848	14,176	(2,672)
	667,165	446,266	(220,899)
Share-based compensation	255,748	58,347	(197,401)
Total	$ 922,913	$ 504,613	$ (418,300)

	YTD-FYE'17	YTD-FYE'16	Change
Salaries and benefits	$ 462,247	$ 200,157	$ (262,090)
Professional fees	321,816	335,030	13,214
Corporate governance	133,222	64,346	(68,876)
Amortization	111,836	124,027	12,191
Marketing and travel	99,189	64,600	(34,589)
Insurance	32,734	28,568	(4,166)
Other	30,746	9,441	(21,305)
Rent	29,264	20,400	(8,864)
	1,221,054	846,569	(374,485)
Share-based compensation	355,556	113,100	(242,456)
Total	$ 1,576,610	$ 959,669	$ (616,941)

Salaries and benefits increased $154,205 during the quarter and $262,090 year to date, reflecting an estimated provision of approximately $173,000 recognized year to date for milestone bonuses to the executive management team, and additional salary costs associated with the new executive roles.

The increase of $242,456 in Share-based compensation for YTD-FYE'17 compared to YTD-FYE'16 relates primarily to share options awarded to the executive management team. The value of this award recognized year to date was $247,122, which was partially offset by lower share-based compensation incurred for consultants than in the prior year.

The increase in Corporate governance expense in both the quarter and year to date comparisons related to three areas. First, additional non-recurring legal fees were incurred for the October 2016 Annual General Meeting ("AGM") compared to the October 2015 AGM. These fees were for implementing various changes to shareholder and governance documents such as amendments to the Shareholder

Rights Plan, the Share Option Plan, and the By-laws of the Company. Second, the Company engaged a firm to provide corporate secretarial services previously managed in-house and by legal counsel. Finally, there was a change in the directors' compensation mix of cash and share-based compensation selected by certain directors as well as an additional director compared to the prior year periods.

Professional fees decreased in Q2-FYE'17 compared to Q2-FYE'16 primarily related to lower IR consulting and legal fees, partially offset by an increase in accounting services and human resource consulting. This decrease was consistent on a year to date basis.

The increase in Marketing and travel expense in the comparative periods primarily reflects increased travel costs associated with executing on business development objectives and responsibilities by the President. These higher Marketing and travel costs in G&A expense were offset by lower costs for this expense category in S&M expense as noted below.

Amortization increased in Q2-FYE'17 over Q2-FYE'16 primarily related to an increase in the amortization of computer hardware. On a year to date basis, the decreased amortization expense reflects a lower rate of amortization for the molecules, following a review of their estimated life conducted in May 2015 such that the Q2-FYE'16 amortization expense reflected an additional month's amortization at a substantially higher rate than Q2-FYE'17.

The increase in Rent expense in the quarter and year to date reflects the opening of a Boston office in August 2016.

c) S&M Expense

Table 5 provides a breakdown of S&M expense by major expense types for the comparable three and six month fiscal periods ended October 31.

Table 5: S&M Expense – Comparative Periods Ended October 31

	Q2-FYE'17	Q2-FYE'16	Change
Professional fees	$ 96,542	$ 93,901	$ (2,641)
Marketing and travel	10,902	39,917	29,015
Salaries and benefits	-	3,190	3,190
Other	271	560	289
Total	$ 107,715	$ 137,568	$ 29,853

	YTD-FYE'17	YTD-FYE'16	Change
Professional fees	$ 160,686	$ 190,683	$ 29,997
Marketing and travel	42,604	79,383	36,779
Salaries and benefits	7,547	11,327	3,780
Other	480	1,110	630
	211,317	282,503	71,186
Share-based compensation	-	12,133	12,133
Total	$ 211,317	$ 294,636	$ 83,319

The decrease in Professional fees year to date relates to lower usage of business development services from third party consultants compared to YTD-FYE'16. As part of the strategic reorganization, more of the Company's business development activities are being executed in-house.

The Marketing and travel expense decrease year to date reflects a decrease in the number of Company representatives attending business development conferences as well as a shift in the conferences being attended. In addition, the mix of Company employees and consultants attending has also shifted with less involvement from consultants. Marketing and travel expenses associated with in-house personnel attending these conferences have been primarily allocated to Marketing and travel in G&A expense, thus offsetting the decrease reflected in S&M from consultants' marketing and travel costs.

The Company has not employed any staff directly in the S&M function in recent years, preferring to use external consultants and members of the Board of Directors as necessary for this activity. The new management team is assuming more of these activities directly, resulting in the decrease in Salary and benefits paid to directors in the quarter and year to date.

Share-based compensation decreased year to date compared to the prior year, as there were no share options awarded to a business development consultant in the current year as there was in the prior year.

d) Investment Tax Credits ("ITC")

ITC income increased $17,651 in Q2-FYE'17 compared to Q2-FYE'16 related to an increase in the R&D expenditures that qualified for refundable ITC in the quarter compared to the prior period. This increase in eligible R&D expenditures correlates to the higher R&D spending noted above. The increase in ITC was also reflected in the year to date comparisons, with an increase of $50,229 compared to YTD-FYE'16.

e) Interest and Financing

The increase in interest income in Q2-FYE'17 and YTD-FYE'17 compared to the prior year periods related primarily to the substantially higher cash, cash equivalents, and investments held by the Company during the comparable periods.

f) Change in Fair Value of Warrant Liability

Under IFRS, the warrant liability must be revalued at each reporting period and for Q2-FYE'17 this resulted in the recognition of a significant decrease in this non-cash expense compared to Q1-FYE'17. The change in key assumptions for the Q2-FYE'17 period compared to Q1-FYE'17 and Q4-FYE'16 were substantial as shown in Table 6 below, and had significant impact on the change in fair value of the warrant liability recorded at each quarter end.

Table 6: Key Assumptions of Warrant Liability Remeasurement

	Model Key Assumption	Q2-FYE'17	Q1-FYE'17	Q4-FYE'16
1	Estimated volatility	48.07 – 50.39%	49.79 - 50.39%	55.92 – 56.28%
2	USD-CAD foreign exchange rate	1.3408	1.3043	1.2556
3	Estimated life in years	2.84 – 2.94	2.81 – 2.88	2.96 -3.02
4	Market price in CAD	$0.55	$0.66	$0.49
5	Exercise price in USD	$0.34	$0.34	$0.34
6	Fair value adjustment	$ (949,218)	$ 1,052,470	$ 965,869

g) Foreign Exchange Gain

The increased foreign exchange gain of $21,860 during the quarter compared to Q2-FYE'16 and $53,859 for YTD-FYE'17 compared to YTD-FYE'16 related primarily to higher USD cash balances than the comparative prior periods. The higher USD cash resources relate to the closing of a USD $1.1m private placement in Q4-FYE'16.

Financial Results Two Year Quarterly Summary

Table 7 summarizes the financial results of the Company by quarter for the past two fiscal years.

Table 7: Summary of Quarterly Financial Results [(1)]

FYE 2017	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(2,315,063)	(748,286)			(3,063,349)
Loss per common share	$ (0.02)	$ (0.01)		$ -	$ (0.02)

FYE 2016	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(985,120)	(938,860)	(637,176)	(2,363,271)	(4,924,427)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(970,796)	(946,204)	(949,503)	(946,683)	(3,813,186)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

(1) The Loss per common share calculated is for both basic and diluted earnings per share.

Two functional expense categories, General and administration, and Research and product development, as set out in Table 8, explain the majority of the variation in the Company's operational expenses by quarter across the two years and quarterly year over year. However, in the most recent two quarters, the non-cash expense item, Change in fair value of warrant liabilities, appearing in the finance income (expense) section of the Financial Statements is the reason for the significant increase in the loss reported. This fair value adjustment resulted in non-cash expense of $1,052,470 in Q1-FYE'17 and $965,869 in Q4-FYE'16 (see section (f) of the "Analysis of Financial Results First Quarter Fiscal 2017").

G&A expense peaked in the first quarter of fiscal 2015 and declined through the balance of that year and then increased in the first two quarters of fiscal 2017 primarily related to changes in the leadership structure. R&D expense decreased sharply in the first quarter of fiscal 2015 with the completion of the 28-day two-species toxicity testing for COTI-2 and then increased over the succeeding quarters as work continued toward the completion of an IND filing for COTI-2. This similar trend occurred in fiscal 2016 with R&D expenses decreasing in the first quarter of FYE 2016 while the Company awaited regulatory feedback of its IND filing and then incurred a gradual ramp up of costs as the planning of the Trial proceeded. This trend continued into fiscal 2017 as the clinical testing of patients was well underway having commenced in Q4-FYE'16.

On a total expense basis, G&A and R&D declined as a share of overall costs in the first three quarters of FYE 2016 as S&M expense increased related to business development initiatives for COTI-2 and other potential revenue streams.

Table 8: Selected Quarterly Expense Categories (1)

FYE 2017	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 553,889	$ 667,165			$ 1,221,054
Research and product development	597,843	716,495			1,314,338
Share-based compensation	116,171	281,847			398,018
Total of expense categories	1,267,903	1,665,507	-	-	2,933,410
Total expense for the quarter	$ 1,330,945	$ 1,734,613	$ -	$ -	$ 3,065,558
Expense categories as a % of total expense	95.3%	96.0%	-	-	95.7%

FYE 2016	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 400,302	$ 446,267	$ 317,861	$ 479,325	$ 1,643,755
Research and product development	287,773	337,889	371,513	445,747	1,442,922
Share-based compensation	77,834	69,021	182,150	99,879	428,884
Total of expense categories	765,909	853,177	871,524	1,024,951	3,515,561
Total expense for the quarter	$ 902,865	$ 969,786	$ 964,069	$ 1,084,095	$ 3,920,815
Expense categories as a % of total expense	84.8%	88.0%	90.4%	94.5%	89.7%

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 693,846	$ 512,570	$ 418,373	$ 434,705	$ 2,059,494
Research and product development	234,841	355,101	345,520	397,111	1,332,573
Share-based compensation	24,928	28,860	165,626	86,081	305,495
Total of expense categories	953,615	896,531	929,519	917,897	3,697,562
Total expense for the quarter	$ 1,018,907	$ 987,533	$ 980,702	$ 968,477	$ 3,955,619
Expense categories as a % of total expense	93.6%	90.8%	94.8%	94.8%	93.5%

(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 the functional expense categories in the financial statements has been removed from the functional disclosure and shown separately in this table.

The variability in the comparable year over year quarters is primarily due to a higher level of spending in R&D activities throughout fiscal 2016 and into fiscal 2017, and for G&A expenses in the first two quarters of fiscal 2017 compared to fiscal 2016. The increase in Share-based compensation in the third quarter of each fiscal year reflects the timing of share option awards typically granted at the October Board of Directors meeting following the Annual General Meeting and does not correlate to the changes in the other expense categories during these years.

Liquidity and Cash Resources

The Company's cash resources include cash, cash equivalents, and investments. Table 9 summarizes the changes in cash resources for Q2-FYE'17 and Q2-FYE'16. At the end of Q2-FYE'17, the Company had cash resources of $4,436,589 compared to $2,286,342 at Q2-FYE'16, reflecting an increase of $2,150,247. The difference in the cash resource balances year over year primarily reflects the cash proceeds from a private placement closed on March 29, 2016, for gross proceeds of USD $1.1m (CAD $1,452,331) and the exercise of warrants expiring in January, March, April, and June of 2016 that funded operations in the last quarter of fiscal 2016 and into fiscal 2017.

Table 9: Summary of Changes in Cash Resources (1)

	Q2-FYE'17	Q2-FYE'16
Used in:		
Operating activities	$ (2,096,535)	$ (1,597,359)
Investing activities	(290,763)	(68,843)
Decrease in cash resources before financing activities	(2,387,298)	(1,666,202)
Proceeds from issuance of common shares and warrants	1,758,792	2,213,960
Proceeds from settlement of warrant liability	32,786	-
Costs of issuance common shares and warrants	(2,060)	(90,258)
Interest paid	(1,061)	(2,453)
Increase (decrease) in cash resources	(598,841)	455,047
Less: unrealized foreign exchange loss on cash resources	33,882	(34,389)
Cash resources - beginning of period	5,001,548	1,865,684
Cash resources - end of period	$ 4,436,589	$ 2,286,342

(1) See Use of Non-GAAP Financial Measures.

Based upon the Company's cash flow projections these cash resources will sustain operations through the balance of fiscal 2017 and into fiscal 2018. However, such funds are insufficient to finance the Company to the completion of the Phase 1 Trial that is expected to continue into fiscal 2018. Accordingly, additional financing will be required as discussed below.

Financing Activities

As previously advised, the Company was able to realize additional financing during Q1-FYE'17 from the exercise of Common share purchase warrants and compensation warrants for net proceeds of $1,606,157.

1. During Q2-FYE'17

   a) Option exercises:

During the quarter, financing was obtained through the exercise of options as summarized below.

Table 10: Summary of Option Exercises

Option description	Number of options exercised	Gross proceeds	Net transfer value	Share issuance costs	Common Shares	Net Proceeds
$ 0.25	48,897	$ 12,224	$ 10,855	$ (370)	$ 22,709	$ 11,854
$ 0.30	463,415	139,025	95,000	(303)	233,722	138,722
	512,312	$ 151,249	$ 105,855	$ (673)	$ 256,431	$ 150,576

2. Subsequent to Q2-FYE'17

a) Option exercises:

Subsequent to October 31, 2016, the Company realized gross proceeds of $90,000 from the exercise of 300,000 options held by a consultant and exercisable at $0.30.

Future Financing

The Company has 22,163,113 warrants outstanding as set out in Table 16, "Outstanding Share Information", at the date of this MD&A. All of these warrants are currently in-the-money as they were at FYE 2016. Certain of these warrants contain a trigger provision that provides the Company with the discretionary ability to accelerate the expiry date to a period of 21 days, if for any ten consecutive trading days during the unexpired term of the warrants (the "Premium Trading Days"), the closing price of the common shares on the TSXV equals or exceeds three times the exercise price set out in the warrant certificate. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. Any warrants not exercised during this reduced exercise period will expire.

The extent to which these warrants are exercised will be a function of the market price of the Company's underlying common shares and individual investor perspectives on the opportunity for shareholder value creation over the investment time horizon. Management believes that continued achievement of milestones, particularly in the development of COTI-2, will support an increase in shareholder value and will provide the Company with an opportunity to realize funding from a portion of these outstanding warrants in fiscal 2017 and 2018. Table 11 sets out the warrants outstanding that do and do not have a trigger provision, and the potential financing available from their exercise.

Table 11: Summary of Outstanding Warrants and Potential CAD Proceeds

Price	Warrants	CAD Proceeds
Trigger	18,393,883	$ 7,889,032
No trigger	3,769,230	963,971
	22,163,113	$ 8,853,003

Table 12 sets out the market prices at which the trigger price would be reached, and thus the point where management could force exercise for those warrants that have an acceleration clause.

Table 12: Warrants with Accelerated Expiry Dates and Estimated Trigger Prices

	Exercise Price	Exercise Currency	# of Warrants	[1] Estimated Trigger Price	CAD Proceeds
Compensation Warrants	$ 0.29	CAD	162,811	$ 0.8700	$ 47,215
Compensation Warrants	$ 0.315	CAD	96,120	$ 0.9450	30,278
Compensation Warrants [1]	$ 0.26	USD	460,739	$ 1.0454	160,557
Warrants	$ 0.38	CAD	5,519,925	$ 1.1400	2,097,572
Warrants	$ 0.42	CAD	2,144,267	$ 1.2600	900,592
Warrants [1]	$ 0.34	USD	10,010,021	$ 1.3671	4,652,818
Totals			18,393,883		$ 7,889,032

Note: [1] These estimated trigger prices were calculated based upon the closing price of the USD-CAD exchange rate at October 31, 2016. These trigger prices will vary based upon fluctuations in this conversion rate.

As the extent and timing of warrant exercises as a source of financing is uncertain, the Company continues to look at alternative financing sources to support operations going forward. The current focus in this regard is on private placements with accredited and institutional investors.

Investing Activities

Investing activities in YTD-FYE'17 totaled $75,613 consisting of the purchase of $9,766 in computer equipment (YTD-FYE'16 – $19,772), and $65,847 in patent costs (YTD-FYE'16 – $49,071). Investment in such items will continue into the future as the Company relies heavily on computing technology to run its CHEMSAS® process and ROSALIND™ technology. Investing in patents ensures the value of the Company's intellectual property is protected to generate future licensing revenue. At Q2-FYE'17, the Company had 23 patents granted and 10 patents pending in various jurisdictions with a carrying value of $817,782.

The Company conducts periodic reviews of its tangible and intangible assets for impairment indicators, including its most recent analysis at October 31, 2016 to ensure the carrying value of these assets (equipment, molecules, patents, and computer software) is not impaired. There were no impairment indicators during the quarter.

Working Capital

The Company had Adjusted Working Capital at Q2-FYE'17 of $3,846,170 compared to $4,602,044 at FYE 2016 (see Table 18). The Company defines Adjusted Working Capital as the standard working capital calculation adjusted for non-cash liabilities. This definition is a non-GAAP financial measure, does not have a prescribed meaning under IFRS, and therefore may not be comparable to similarly described measures when presented by other issuers. Details concerning the calculation of this working capital measure can be found under the discussion concerning Use of Non-GAAP Financial Measures.

Cash equivalents are invested in money market instruments with maturities of three months or less. The investments consist of guaranteed investment certificates and provincial government USD stripped bonds, which can be readily converted to cash. Details of these investments appear in Table 13.

Table 13: Summary of Investments

Investment description	Fiscal Year of Maturity	Effective interest rate	Cost	Unrealized Gain /	Fair value
Guaranteed investment certificates	2017-18	0.95 - 1.40%	$ 2,115,000	$ 14,175	$2,129,175
Canadian provincial government USD stripped bonds	2018-20	1.04 - 1.82%	719,538	10,857	730,395
Total			$ 2,834,538	$ 25,032	$2,859,570

Current assets decreased to $5,184,383 at Q2-FYE'17 from $5,431,410 at FYE 2016 for a decrease of $247,027 primarily due to a decrease in Cash Resources. Current liabilities increased $579,313 to $3,531,697 at Q2-FYE'17 from $2,952,384 at FYE 2016 primarily due to an increase of $508,847 in accounts payable and accrued liabilities. This increase related to expenditures related to the Trial and the executive bonus provision mentioned earlier. The Company's exposure to fluctuations in the recoverability of its financial assets is limited as cash not required for current purposes is held in interest bearing cash accounts. The short periods to maturity of these instruments and their capacity for prompt liquidation result in future settlement amounts that are consistent with carrying values. Given the nature of the Company's financial liabilities, there is limited risk that future settlement amounts will differ from their carrying values.

The Company had commitments at the quarter-end to pay for the completion of work primarily under research and development contracts related to the COTI-2 Trial. Payment timing of clinical trial costs is subject to the actual timing of trial activities such as the enrollment of patients, completion of patient testing, and administration of drug, as well as the negotiated payment terms with the Trial site. The Company currently expects the Trial to conclude in fiscal 2019. Summary details of the estimated timing of the Company's commitments are set out below.

Table 14: Contract Commitments

	Fiscal Years ending April 30			
	2017	2018	2019	Total
COTI-2:				
Clinical trial costs	$ 533,394	$ 1,069,378	$ 175,209	$ 1,777,981
Other preclinical	75,738	100,161	8,237	184,136
	609,132	1,169,539	183,446	1,962,117
Other molecules	27,709	-	-	27,709
Other non-R&D consulting contracts	34,337	-	-	34,337
Total	$ 671,178	$ 1,169,539	$ 183,446	$ 2,024,163

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 entered 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 currency risk from fluctuations in exchange rates between the CAD and such currencies. Up to fiscal 2017, such exposure was not significant and the Company did not use derivative instruments to reduce its exposure to such foreign currency risk.

During Q2-FYE'17, as in prior periods, the Company's foreign exchange exposure was related primarily to the USD with some modest exposure to CHF. The Company raised USD $1.1m in financing in March 2016, which provides some natural hedging against its future USD expenditures related to the COTI-2 Trial. These clinical trial costs will occur over the next two years and costs expected to be incurred in USD are in the range of USD $736,000 – $1,211,000.

The USD/CAD exchange rate remained volatile during the first six months of the year; October 31, 2016 (1.3403), July 31 (1.3056), and April 30, 2016 (1.2548). The Company incurred an unrealized foreign exchange gain from investing the proceeds of the March 2016 financing, which is a major part of the gain reflected at the quarter-end and year to date.

As for future exposure, the Company has warrants outstanding and exercisable at USD prices that could generate USD proceeds to the Company. The amount and timing of such exercise is not presently determinable. In addition, the Company has been focusing on U.S.-based investors for future financings that could provide USD funds and a further hedge for the Company's USD expenditures. Because of these exposures, variations in foreign exchange rates could cause some fluctuation in the Company's

operating results and cashflow, however, management does not expect the changes in foreign exchange will have a material impact on operations.

The Company's exposure to foreign currency risk is set out in Table 15 below. Excluding the currency impact of the warrant liability, which is a liability not settled in cash, a 5% strengthening of the CAD against the USD at October 31, 2016 would have increased the Company's loss by approximately $26,000. A 5% weakening of the CAD against the USD would have an equal but opposite effect assuming all other variables remain constant.

Table 15: Foreign Exchange Balances Held

As at October 31, 2016				
	CAD	USD	Other	Total
Cash and cash equivalents	$ 1,330,389	$ 246,498	$ 132	$ 1,577,019
Investments	2,135,325	724,245	-	2,859,570
Other receivables	697	-	-	697
Accounts payable and accrued liabilities	(827,539)	(456,926)	-	(1,284,465)
Warrant liability	-	(2,193,484)	-	(2,193,484)
	$ 2,638,872	$ (1,679,667)	$ 132	$ 959,337

Related Party Transactions

Material transactions with related parties that occurred during Q2-FYE'17 were in the ordinary course of business as follows:

a) On October 13, 2016 an award of 1,073,795 share options was made to directors for their annual compensation related to the ensuing year and 418,067 share options were awarded to executive officers; and,

b) During the quarter, 490,565 share options granted to directors and officers in prior periods were exercised.

c) During the quarter, the Company continued the engagement of a Human Resource-consulting firm that reports to the President of the Company under a contract with agreed upon per diem payment terms. The President of the consulting firm is related to a director of the Company. Fees and expenses paid or accrued for services rendered in the quarter were $30,363 (October 31, 2015 – $7,500) and $48,488 for the six month period (October 31, 2015 – $12,806).

At October 31, 2016, there were directors' fees payable of $3,302 (October 31, 2015 – $6,593) and accrued salaries, benefits, bonuses and outstanding vacation pay owing to executive officers of $288,073 (October 31, 2015 – $96,244).

Outstanding Share Information

Outstanding share information at the close of business on December 15, 2016 is set out in Table 16.

Table 16: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	149,158,435	
Diluted [(1)]	182,518,983	
Weighted average outstanding [(2)]	147,979,099	
Common share warrants		
$0.42 warrants	2,144,267	Jun 28 - Jul 30/17
$0.315 compensation warrants	96,120	Jun 28 - Jul 30/17
$0.38 warrants	2,420,551	Mar 29/18
$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 [(3)]	10,010,021	Oct 16 - Nov 24/19
$0.26 USD compensation warrants	460,739	Oct 16 - Nov 24/19
$0.38 warrants	3,099,374	Dec 18/19 - Feb 16/20
$0.29 compensation warrants	162,811	Dec 18/19 - Feb 16/20
	22,163,113	
Common share stock options		
$0.14 - $0.25	2,561,098	Oct 17/16 - Mar 19/20
$0.26 - $0.50	3,894,910	Sep 26/16 - Apr 25/21
$0.51 - $0.72	4,741,427	Jul 4/21 - Jul 16/21
	11,197,435	

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

[(2)] Weighted average shares outstanding calculated from May 1, 2016 to the close of business on Dec 15, 2016.

[(3)] See Use of Non-GAAP Financial Measures

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. During Q3-FYE'16 COTI became a clinical stage company, transitioning its historical focus of primarily discovery and preclinical development to that of clinically focused activities. 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, CHEMSAS, either for its own pipeline development or through R&D collaborations.

The major industry and economic risk factors most significant to the Company during Q2-FYE'17 and for the year ahead are discussed below as follows:

1. going concern risk;
2. uncertainties related to research;
3. clinical trial risks;
4. lack of revenues;
5. securing adequate licensing agreements;
6. access to capital; and,
7. foreign currency exposure.

Going Concern Risk

The Company's goals for fiscal 2017 include advancing the Phase 1 COTI-2 trial, conducting the required development activities to progress COTI-219, completing the validation phase of the ROSALIND project and other objectives in order to build the Company as resources permit. For COTI, the material uncertainties discussed under "Liquidity and Cash Resources" and as specifically highlighted in note 3 of the Interim Financial Statements raise significant doubts about the ability of the Company to accomplish its goals. These conditions 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, the Company is taking steps to obtain additional cash resources as described under Financing above. The Company has discretion with many of its expenditure activities and will responsibly manage these activities in fiscal 2017 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that sufficient funding can be obtained that will enable the Company to alleviate the going concern risk in future periods.

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 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 (absorption, distribution, metabolism, and excretion) and pharmacokinetics, inability to

increase the scale of manufacture, lack of 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 mitigates these risks compared to traditional drug discovery approaches, however, its predictions remain a probability only, and even at a very high probability there is a risk that failure can occur. Despite these uncertainties, COTI's lead compound, COTI-2, progressed through preclinical testing, received a grant from the FDA to proceed to a Phase 1 clinical trial in Q1-FYE'16, commenced patient treatment early in Q4-FYE'16, and continued to progress in the Trial during Q2-FYE'17. This success to date was predicted by CHEMSAS®.

COTI experienced these types of uncertainties and delays with its lead compound, COTI-2, during Q2 and Q3-FYE'16. Although the IND was granted to proceed with the clinical trial on May 22, 2015, the internal review and approval process for the clinical trial agreement with MDACC was challenging and lengthy, resulting in delays and revised target dates for commencing to treat patients.

Clinical Trial Risks

Clinical trials are very expensive, time-consuming, and difficult to design, implement, and successfully execute. There are many risks associated with clinical trials including:

a) the regulatory requirements of government authorities;

b) the requirements of clinical investigator institutions whose protocols are intended to protect the patient but also the investigating institution from liability associated with trial failures and compliance with government regulations;

c) the failure of investigational products to achieve the targeted safety and efficacy endpoints of the trial during, and at completion of the trial;

d) the potential suspension of a clinical trial by regulatory officials at any time if it appears that patients are exposed to unacceptable health risks;

e) the substantial periods of time necessary to complete the trial that cannot be easily predicted or controlled due to unknown or unexpected events involving patients and other external factors such as; weather affecting a patient's ability to attend for dosing, or, statutory holidays affecting the start date of a cohort;

f) the potential for failure at any stage of the trial due to the occurrence of unacceptable toxicities or other unforeseen safety issues;

g) the potential for problems during the trial that cause the Company to repeat some or all parts of a trial, amend the trial protocol, or even abandon the trial;

h) the occurrence of slower than expected patient enrollment rates; and,

i) the inability to monitor trial participants receiving an oral treatment taken on an outpatient basis adequately, during or after dosing.

In summary, our clinical trial may fail to produce successful results or could be suspended due to unacceptable safety risks, which could cause our trial to fail and could then have severe consequences for the business.

Lack of Revenues

The revenue cycle for drug development is long; typically 5 to 10 years depending upon the point along the development timeframe that monetization of the asset occurs. Since its inception to October 31, 2016, COTI has worked to develop relationships with prospective customers, and sought strategic licensing and collaboration agreements for its own products and therapeutic targets of interest to partners. While collaborative CHEMSAS® projects for compounds for some partners have been undertaken in the past, the Company has not yet entered into a licensing agreement for one of its compounds. The continued development of COTI-2 and furthering of relationships with licensees are critical to achieving a revenue realization stage, and is expected to be based upon having positive human test data for toxicity and efficacy. Accordingly, operating losses are anticipated to continue 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 revenue and positive cash flow, the Company will continually need to seek additional financing until such time as profitable operations occur.

Securing Adequate Licensing Agreements

Securing licensing agreements is one avenue for the Company to commercialize its products. An important step in this process is meeting the due diligence requirements of prospective customers. The continued positive test results for COTI-2 during the quarter and throughout the past year generated positive feedback from potential licensees, however these results have not translated into a contractual agreement as of yet. Positive results in the Phase 1 human testing are expected to provide the risk reduction data required to make licensing attractive to potential partners.

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 low risk profiles, preferring later stage clinical compounds that have successfully reached as far as, or through, Phase 3 clinical trials. While it may seem a reasonable strategy for a major pharmaceutical company to establish a drug development pipeline across the entire development cycle, there is no certainty that COTI can become 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 or that indicate 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, efficiently through development. These efforts were highlighted under "Liquidity and Cash Resources" where the Company noted the continuing need to raise financing to support project development until a revenue event can provide sufficient operating cash flows to sustain the business. 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 by relinquishing significant rights on less favourable terms than COTI would otherwise accept. Despite the Company's financing efforts, there can be no assurance that additional funding can be obtained.

Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the functional currency of the Company. The Company is also exposed to foreign currency risk as a result of financial assets and liabilities being denominated in a foreign currency. For COTI this is primarily related to the USD but to a much lesser extent may include other currencies such as the Swiss franc. The effect of this risk on operations for Q2-FYE'17 was discussed at "Foreign Exchange Exposure". The Company's clinical trial is being conducted at U.S. sites under clinical trial agreements that require payment for these services in USD. Accordingly, the Company is exposed to foreign exchange risk on its payments for these services. The Company also holds USD investments whose values in CAD fluctuate with the underlying exchange rates. To the extent the Company holds both USD assets and liabilities may provide a natural hedging situation. However, the Company does not currently formally hedge its exposure to fluctuations in foreign exchange rates and accordingly any natural hedge situation may or may not limit the Company to a gain or loss on such positions.

Use of Non-GAAP Financial Measures

Management has included two non-GAAP financial measures, Cash Resources, and Adjusted Working Capital, to supplement information contained in this MD&A. These non-GAAP measures do not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures when presented by other issuers.

a) Cash Resources

The Company looks at its available cash for operations based on all Cash Resources, which is defined by the Company as the sum of its cash, cash equivalents, and investments. This differs from IFRS disclosure in the Company's financial statements where Cash is defined as cash and cash equivalents. The essential difference is the inclusion of investments in the Company's view of cash available for operations. Under IFRS, investments are accounted for by evaluating the intended purpose of the investment under an evaluation hierarchy. Investments with a maturity date greater than 90 days from the date of purchase are considered "held for trading" under the hierarchy if the intent is to sell or trade such investments

and thus are not included in cash and cash equivalents. The investments at Q2-FYE'17 consisted of guaranteed investment certificates and provincial government stripped bonds. These investments can be readily cashed and the Company has treated these for accounting purposes as "held for trading" under the hierarchy given the expectation that they would be used in operations during the upcoming year when the need arose.

With high liquidity characteristics, management considers such investments as a readily available source of cash for operations. Accordingly, management believes the inclusion of the investments as part of Cash Resources provides more meaningful information related to the liquidity of the Company, and the cash available for operations.

Table 17: Reconciliation to Cash

	October 31, 2016		April 30, 2016	
	Cash per MD&A	Cash per Financial Statements	Cash per MD&A	Cash per Financial Statements
Cash and cash equivalents	$1,577,019	$1,577,019	$2,141,978	$2,141,978
Short-term investment	2,859,570	-	2,587,946	-
Cash	$4,436,589	$1,577,019	$4,729,924	$2,141,978

b) Adjusted Working Capital

The Company uses Adjusted Working Capital in its monitoring and review of cash required for operations. Adjusted Working Capital is defined as the standard working capital calculation adjusted for non-cash liabilities as set out in Table 18.

The standard working capital calculation results in a lower amount of working capital than what the Company measures as working capital. This occurs as the accounting principles under IFRS for warrants issued with an exercise price denominated in USD requires these warrants to be accounted for as a warrant liability.

During fiscal 2015, the Company completed a private placement financing of units in three tranches consisting of one common share and one warrant. The 10,177,760 warrants issued had an exercise price of USD $0.34. As this exercise price was not the functional currency of the Company, the warrants were required to be presented as a "warrant liability" on initial recognition, rather than equity if they had been issued in the functional currency of the Company. At each subsequent reporting date, the warrants are measured at their fair value and the change in fair value is recognized through profit or loss.

As the warrants are exercised by the warrant holders, the total warrant liability is reduced by the fair market value of the warrants that are exercised, as valued on the date prior to the date of exercise, and

the related amount is transferred to equity reflecting the accounting treatment had these warrants been issued originally with a CAD exercise price. For emphasis, this warrant liability represents warrants denominated with a USD exercise price which, if exercised, will bring in cash to the Company and accordingly represent a "liability not settled in cash".

Thus, the Company uses Adjusted Working Capital to reflect the reality of the Company's working capital position as it relates to liabilities where the Company has an actual legal expectation to issue cash in settlement.

Table 18: Adjusted Working Capital

	October 31, 2016	April 30, 2016
Amounts per financial statements:		
Current assets	$5,184,383	$5,431,410
Current liabilities	3,531,697	2,952,384
Working capital	1,652,686	2,479,026
Adjustment for non-cash items:		
Warrant liability	2,193,484	2,123,018
	$3,846,170	$4,602,044

Changes in Accounting Policies

a) Adoption of new accounting pronouncements:

The IASB issued new standards and amendments or interpretations to existing standards that were effective for the Company's fiscal year beginning May 1, 2016. Of the new or amended pronouncements, there was only one standard applicable to the Company's operations as described below.

(i) IAS 1, Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments were effective for annual periods beginning on or after January 1, 2016, and accordingly the Company adopted these amendments in its interim financial statements for the annual period beginning on May 1, 2016. These amendments did not require any significant change to current practice and did not have a material impact on these interim financial statements, but facilitate improved financial statement disclosures going forward.

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, 2017 year-end. Many of these updates are not applicable or are inconsequential to the Company and

have been excluded from the discussion below. Those new or amended standards that may affect the Company for the financial reporting year ended April 30, 2018, are set out below. The Company does not expect the amendments to have a material impact on the financial statements.

(i) IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39 – Financial Instruments: recognition and measurement standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018. Management is assessing the impact of this standard on its financial statements.

(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 for leases, financial instruments, and insurance contracts. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services.

IFRS 15 also provides guidance related to the treatment of contract acquisition and contract fulfillment costs. 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 adopting the standard has not yet been determined, as the Company has not generated revenues to date; however, the Company is evaluating the standard in light of the types of revenue that are anticipated.