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

Fiscal 2014 – Second Quarter
for the three and six months ended October 31, 2013

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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 quarter and six months ended October 31, 2013. 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 December 17, 2013. 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 quarter and six months ended October 31, 2013. 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.

Quarterly interim reports, annual audited financial statements, the Company's most recent Annual Information Form (AIF) of August 2012, and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.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 • Plans for further testing of COTI-2 leading to an investigational new drug (IND) filing and readiness for a Phase 1 clinical trial • Plans for future application of the CHEMSAS® technology on a collaboration basis • The Company's commercialization strategy for collaborations
Liquidity and Capital Resources	• Expectations of future expenditures on patents and computer software and hardware • Ongoing requirements to seek additional cash resources
Foreign Exchange Exposure	• Expectation of continued limited exposure to currency fluctuations as limited use of foreign contract research organizations
Financial and Operational Progress & Outlook	• Expectations on investment tax credit recoveries • Plans for continued research and development spending • Scientific experiments for COTI-2 progressing to optimize the licensing value of the drug candidate to IND ready status • The ability to continue to develop AML compounds as a follow on licensing program • Collaboration projects ongoing with Western University, Delmar Chemicals Inc. and a multinational pharmaceutical company leading to completion and revenue • Activity in p53 tumours representing breakthrough therapy for many cancer patients
Industry and Economic Risk Factors Affecting Performance	• The expectation of continued losses until a revenue transaction is secured • Plans to negotiate future licensing agreements • Plans to raise additional financing through different venues and mechanisms available to the Company
Changes in Accounting Policies	• The adoption in fiscal 2014 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 the state-of-the-art of 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
- 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
- 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 small cell lung cancer molecules 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.

Our Business

COTI is a biotechnology company focused on applying its proprietary computer-based technology, CHEMSAS®, to identify, profile, optimize and select commercially viable drug candidates at the discovery stage of preclinical drug development and thereby dramatically reduce the timeline and cost of getting new drug therapies to market. The Company's strategic business model is to license its targeted molecules following synthesis and completion of confirmatory preclinical testing up to the IND ready stage in order to address the pipeline needs of pharmaceutical and biotechnology companies.

The Company is developing focused portfolios of novel, proprietary, and optimized small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. COTI has concentrated on developing 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 Phase 1 clinical trials 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 is focused on preparing for an IND clinical trial submission based on the positive preclinical test results achieved for COTI-2 to date against a number of cancer indications. Current testing initiatives and planning would enable an IND filing in calendar 2014. Upon acceptance of an IND filing, 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. This collaboration approach resulted in three engagements being announced in fiscal 2013; one with a Canadian university, one with a private chemical synthesis company and one with a multinational pharmaceutical company.

Financial Review of Operations

The financial results of the Company for the three and six month periods ending October 31, 2013, are summarized with results for the comparable periods ending October 31, 2012, in Table 2. The Company reported a quarterly net loss of $598,220, or $0.01 per share, in the second quarter of fiscal 2014 compared to a net loss of $762,669, or $0.01 per share, for the second quarter a year earlier. For the six months ended October 31, 2013 (YTD-F'13) the Company reported a loss of $1,098,273 or $0.01 per common share compared to a loss of $1,485,439 or $0.02 per common share for the six months ended October 31, 2012 (YTD-F'12).

Table 2: Statement of Operating Results

	Three months ended		Six months ended	
	October 31, 2013	**October 31, 2012**	**October 31, 2013**	**October 31, 2012**
Collaboration and research service revenue:	$ -	$ 11,019	$ -	$ 14,423
Expenses (income):				
Research and product development	124,050	239,587	257,193	506,582
Sales and marketing	43,024	72,186	45,136	132,880
General and administration	445,561	496,219	816,878	936,948
Investment tax credits	(13,606)	(32,920)	(20,699)	(68,653)
	599,029	775,072	1,098,508	1,507,757
Loss before finance income (expense)	(599,029)	(764,053)	(1,098,508)	(1,493,334)
Finance income (expense):				
Interest income	1,673	1,939	1,550	5,897
Foreign exchange gain (loss)	(864)	(555)	(1,315)	1,998
	809	1,384	235	7,895
Loss and comprehensive loss	$ (598,220)	$ (762,669)	$ (1,098,273)	$ (1,485,439)
Loss per share:				
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)

Revenue

There was no collaboration and research service fee revenue recognized in the quarter ended October 31, 2013 (Q2-FYE'14) compared to $11,019 recognized in the quarter ended October 31, 2012 (Q2-FYE'13). The Q2-FYE'13 amount related to recognition of a portion of an upfront collaboration fee of $25,000 received under a collaboration agreement with Western University signed in July 2012. These quarterly results were consistent with the comparable six-month period results.

Operating Expenses

Operating expenses decreased from $775,072 for Q2-FYE'13 to $599,029 for Q2-FYE'14, a decrease of $176,043. On a year to date basis operating expenses decreased by $409,249 from $1,507,757 in YTD-

FYE'13 to $1,098,508 in YTD-FYE'14. The major functional expense areas responsible for the decrease in both the quarter and year to date were as follows:

- research & product development expenses decreased $115,537 from $239,587 in Q2-FYE'13 to $124,050 in Q2-FYE'14 and decreased $249,389 from $506,582 in YTD-FYE'13 to $257,193 in YTD-FYE'14;
- general and administration expenses decreased $50,658 from $496,219 in Q2-FYE'13 to $445,561 in Q2-FYE'14 and decreased $120,070 from $936,948 in YTD-FYE'13 to $816,878 in YTD-FYE'14; and,
- sales and marketing expenses decreased $29,162 from $72,186 in Q2-FYE'13 to $43,024 in Q2-FYE'14 and decreased $87,744 from $132,880 in YTD-FYE'13 to $45,136 in YTD-FYE'14.

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 six-month fiscal periods ended October 31.

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

	Q2-FYE'14	Q2-FYE'13	Change
R&D testing, consulting and materials	$ 23,771	$ 126,160	$ (102,389)
Synthesis	5,453	(4,597)	10,050
	29,224	121,563	(92,339)
Salaries and benefits	86,694	83,086	3,608
Professional fees	4,876	25,569	(20,693)
Other	6,903	9,891	(2,988)
	127,697	240,109	(112,412)
Government assistance	(3,647)	(522)	(3,125)
Total	$ 124,050	$ 239,587	$ (115,537)

	YTD-FYE'14	YTD-FYE'13	Change
R&D testing, consulting and materials	$ 49,756	$ 282,334	$ (232,578)
Synthesis	16,992	4,872	12,120
	66,748	287,206	(220,458)
Salaries and benefits	174,705	172,549	2,156
Professional fees	4,921	33,712	(28,791)
Other	15,341	15,792	(451)
	261,715	509,259	(247,544)
Government assistance	(4,522)	(2,677)	(1,845)
Total	$ 257,193	$ 506,582	$ (249,389)

The major change between the comparable second quarters occurred in R&D testing, consulting and materials, which decreased $102,389 from $126,160 in Q2-FYE'13 to $23,771 in Q2-FYE'14. This change occurred primarily in the *in vitro* and *in vivo* testing expenses and related to lower testing costs

associated with the Company's lead cancer compound, COTI-2. This lower level of testing reflects a timing issue as the Company awaited further funding to move forward with completing the 28 day two-species toxicity testing for COTI-2. The Company anticipates *in vitro* costs to increase significantly in the second half of fiscal 2014 as COTI moves forward with this testing. The quarterly decrease was consistent with the year to date decrease of $232,578 year over year.

Professional fees decreased $20,693 in Q2-FYE'14 compared to Q2-FYE'13 and $28,791 on a year to date basis. These fees in Q2-FYE'13 and Q1-FYE'13 related to scientific consultants' costs in support of COTI-2 testing and the preparation of a training manual for the Company's proprietary CHEMSAS® process.

b) General and Administration (G&A) Expenses

Tables 4 and 5 provide a breakdown of G&A expenses by major expense types for the comparable three and six-month fiscal periods ended October 31, 2013. The decreases of $50,658 quarter over quarter and $120,070 year to date are primarily attributable to a decrease in share-based compensation, salaries and benefits and professional fees offset by an increase in promotion and travel and Other expenses.

Table 4: G&A Expenses – Comparative Three Month Periods Ended October 31

	Q2-FYE'14	Q2-FYE'13	Change
Amortization	$ 133,481	$ 130,750	$ 2,731
Professional fees	94,774	101,644	(6,870)
Salaries and benefits	75,740	96,329	(20,589)
Corporate governance	26,491	29,999	(3,508)
Insurance	13,821	14,454	(633)
Promotion and travel	19,762	9,492	10,270
Rent	9,346	9,346	-
Other	35,956	6,033	29,923
	409,371	398,047	11,324
Share-based compensation	36,190	98,172	(61,982)
Total	$ 445,561	$ 496,219	$ (50,658)

Share-based compensation decreased $61,982 in Q2-FYE'14 compared to Q2-FYE'13 primarily due to a different mix of eligible plan participants granted share options between the comparable quarters and the timing of such grants. The major difference was $44,075 in share-based compensation recorded in Q2-FYE'13 for directors compared to $6,719 in Q2-FYE'14. This difference occurred as the Company historically grants directors' retainer share options at the Board meeting following the Annual General and Special Meeting of Shareholders (AGM). The 2012 AGM was held in September 2012 while the 2013 AGM was not held until December 2013 after the end of Q2-FYE'14. For the comparable six month periods the decrease year over year also reflects $32,929 in share-based compensation to an Investor Relations consultant in YTD-FYE'2013 that did not occur in YTD-FYE'2014.

Table 5: G&A Expenses – Comparative Six Month Periods Ended October 31

	YTD-FYE'14	YTD-FYE'13	Change
Amortization	$ 264,593	$ 260,939	$ 3,654
Professional fees	180,655	201,518	(20,863)
Salaries and benefits	158,715	197,013	(38,298)
Corporate governance	34,542	50,287	(15,745)
Insurance	27,642	28,921	(1,279)
Promotion and travel	22,633	22,222	411
Rent	18,692	18,692	-
Other	53,276	16,798	36,478
	760,748	796,390	(35,642)
Share-based compensation	56,130	140,558	(84,428)
Total	$ 816,878	$ 936,948	$ (120,070)

The decrease in salaries and benefits of $20,589 reflected a reduction in staffing effective December 1, 2012, that resulted in a decrease of approximately $23,375 in Q2-FYE'14 compared to Q2-FYE'13. This decrease was partially offset by an increase in the salary allocation of the Chief Executive Officer to G&A activities rather than R&D activities. The effect of this staffing change also accounts for the decrease in the year to date salaries and benefits of $38,298.

Professional fees decreased $6,870 from $101,644 in Q2-FYE'13 to $94,774 in Q2-FYE'14. This decrease related primarily to a reduction in executive consulting costs that decreased $16,878 quarter over quarter. The reduction in executive consulting fees year to date was $32,606 and accounts for most of the decrease in the year to date professional fees of $20,863.

The decrease in corporate governance costs for the comparable quarters and year to date of $15,745 is primarily due to the timing of preparations surrounding the AGM. A majority of these costs were incurred subsequent to Q2-FYE'14 as compared to during Q2-FYE'13 as the 2013 AGM was not held until December 2013 rather than in September for the 2012 AGM.

The increase in promotion and travel for Q2-FYE'14 of $10,270 compared to Q2-FYE'13 was primarily a function of the timing of various travel activities related to financing as there is only a minor difference in the comparable year to date costs.

Other costs have increased $29,923 in Q2-FYE'14 compared to Q2-FYE'13 and $36,478 year to date. This increase primarily relates to consulting costs related to raising awareness of the Company and seeking financing in the United States (U.S.) including the investigation of obtaining a listing on the OTCQX bulletin board to facilitate and broaden the ability of U.S. retail investors and the investment community to invest more readily in the Company.

c) Sales and Marketing (S&M) Expenses

Table 6 provides a breakdown of S&M expenses by major expense types for the comparable three and six month periods ended October 31.

Table 6: S&M Expenses – Comparative Periods Ended October31

	Q2-FYE'14	Q2-FYE'13	Change
Salaries and benefits	$ -	$ 19,979	$ (19,979)
Marketing and travel	26,921	12,625	14,296
Professional Fees	16,000	38,970	(22,970)
Other	103	612	(509)
Total	$ 43,024	$ 72,186	$ (29,162)

	YTD-FYE'14	YTD-FYE'13	Change
Salaries and benefits	$ (279)	$ 38,880	$ (39,159)
Marketing and travel	29,311	30,076	(765)
Professional Fees	16,000	62,971	(46,971)
Other	104	953	(849)
Total	$ 45,136	$ 132,880	$ (87,744)

The decrease of $19,979 in salaries and benefits for the Q2-FYE'14 compared to Q2-FYE'13 and the comparative year to date decrease of $39,159 reflects a reduction in staffing effective in late March 2013. Since then, the primary responsibility for sales and marketing activities has been absorbed by other employees within the Company and by consultants. Costs incurred in these activities are included in the core functional area of the employee's responsibility primarily being G&A expense.

The marketing and travel costs increase of $14,296 in Q2-FYE'14 compared to Q2-FYE'13 relates to the timing of various conferences attended and licensing efforts at such forums. On a year to date basis the costs are quite consistent.

Professional fees declined by $22,970 in Q2-FYE'14 compared to Q2-FYE'13 and by $46,971 for YTD-FYE'14 compared to YTD-FYE'13. The decrease relates primarily to consulting fees paid for support services on specific marketing efforts following a staff reduction in March 2012 that were not incurred in the current year and an initial payment to Destum Partners, the Company's licensing consultant, who was engaged near the end of October 2012.

d) Investment Tax Credits (ITC)

ITC income of $13,606 relating to scientific research tax credits earned on eligible expenditures in the quarter was recognized in Q2-FYE'14 compared to $32,920 in Q2-FYE'13 for a decrease of $19,314. On a year to date basis the decrease was $47,954 compared to YTD-FYE'13 and relates to the following:

- lower expenditures during YTD-FYE'14 as eligible R&D expenditures decreased $22,543 from $214,439 in YTD-FYE'13 to $191,896 in YTD-FYE'14;

- the impact of two changes in the federal SRED program announced in the March 2012 budget, which reduced the base for calculating ITCs in the comparable quarters: first, the overhead proxy rate allowed under the federal program decreased from 65% to 60% effective January 1, 2013; and second, qualifying expenditures to arm's length contractors are limited to 80% of the contract payments for expenditures incurred after December 31, 2012;
- the tax program jurisdiction in which the expenditures were incurred; and,
- the timing of claiming tax credits on a cash basis versus an accrual basis that resulted in the recognition of an amount repayable under certain refundable programs.

Financial Results 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

FYE 2014	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(500,053)	$ (598,220)	-	-	(1,098,273)
Loss per common share	$ (0.01)	$ (0.01)	$ -	$ -	$ 0.01

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)

FYE 2012	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(642,256)	(648,530)	(619,550)	(680,815)	(2,591,151)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

The majority of the variation by quarter across the years and quarterly year over year is explained by two expense categories as set out in Table 8 being the level of R&D expenditures and the timing of share-based compensation.

The overall trend line for the operating expenses in FYE 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 previous FYE 2013 quarters to $477,000 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 were responsible for much of the Q4-FYE'13 decline.

Table 8: Selected Quarterly Expense Categories [(1)]

FYE 2014	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 330,307	$ 409,372	$ -	$ -	$ 739,679
Research and product development	133,144	124,050	-	-	257,194
Investment tax credit	(7,093)	(13,606)	-	-	(20,699)
Share-based compensation	19,940	36,189	-	-	56,129
Total of expense categories	476,298	556,005	-	-	1,032,303
Total expense for the quarter	$ 507,726	$ 613,955	$ -	$ -	$ 1,121,681
Expense categories as a % of total expense	93.8%	90.6%	0%	0%	92.0%

FYE 2013	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
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	$ 477,098	$ 2,692,405
Expense categories as a % of total expense	91.5%	90.7%	84.1%	86.7%	88.5%

FYE 2012	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 374,144	$ 424,332	$ 361,305	$ 406,956	$ 1,566,737
Research and product development	205,941	120,008	163,640	223,134	712,723
Investment tax credit	(29,890)	(19,887)	(33,669)	(50,325)	(133,771)
Share-based compensation	41,182	66,717	74,411	39,675	221,985
Total of expense categories	591,377	591,170	565,687	619,440	2,367,674
Total expense for the quarter	$ 649,094	$ 657,774	$ 624,652	$ 677,619	$ 2,609,139
Expense categories as a % of total expense	91.1%	89.9%	90.6%	91.4%	90.7%

(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, Research and product development and Sales and marketing in the financial statements has been removed from the functional disclosure and shown separately in this table.

The year over year variability in the comparable first two quarters of fiscal 2014 is primarily due to fluctuations in R&D activities and share-based compensation expense with G&A expenditure swings also contributing to variability in Q1-FYE'14.

Liquidity and Capital Resources

Table 9 summarizes the changes in capital resources for Q2-FYE'14 and Q2-FYE'13. At the end of Q2-FYE'14, the Company had cash and cash equivalents of $958,401 compared to $575,530 in capital resources at Q2-FYE'13 and $169,347 at the April 30, 2013 year-end.

Table 9: Summary of Changes in Capital Resources [(1)]

	Q2-FYE'14	Q2-FYE'13
Used in:		
Operating activities	$ (752,933)	$ (1,166,049)
Investing activities	(91,356)	(61,491)
Decrease in capital resources before issuance of common shares and warrants	(844,289)	(1,227,540)
Proceeds from issuance of common shares and warrants	1,646,518	(965)
Issuance costs of warrant amendments	(6,966)	(5,345)
Investment tax credit recoveries	-	89,401
Interest paid	(1,142)	(365)
Decrease increase in capital resources	794,121	(1,144,814)
Less: unrealized foreign exchange loss on capital resources	(5,067)	1,673
Capital resources - beginning of period	169,347	1,718,671
Capital resources - end of period	$ 958,401	$ 575,530

(1) See Use of Non-GAAP Financial Measures

The improvement at the end of Q2-FYE'14 from the April 30 year-end of $789,054 is primarily attributable to two private placements; one in Q1-FYE'14 and another in Q2-FYE'14 that raised gross proceeds of $1,754,883; approximately $529,907 in Q1-FYE'14 and approximately $1,224,976 in Q2-FYE'14. Unlike FYE 2012, the Company did not close a private placement late in FYE 2013 that replenished cash resources, which has fostered an ongoing requirement by management to obtain additional financing in the current year. The lower cash balance entering FYE 2014 has caused management to limit its R&D operating activity between the comparable six month periods as discussed under the Financial Review of Operations and the Financial Results Quarterly Summary.

Financing Activities during Q2-FYE'14

Financing activities that occurred during the quarter included a private placement with accredited investors and amendments to warrants from private placements occurring in earlier years that were scheduled to expire in the quarter. Amending these warrants was achieved with modest cost and potentially provides a source of future cash financing with minimal future cost. Details of these activities are set out below.

a) Private placement

The Company completed a non-brokered private placement in three tranches, closing on August 16, 28 and 30, 2013, respectively. Under the private placement, the Company issued 10,208,132 units (Units) consisting of one common share and one common share purchase warrant at a price of $0.12 per Unit

for gross proceeds of approximately $1,224,976. Each common share purchase warrant is exercisable for one common share at a price of $0.26 per share for a period of 18 months from the closing date of each tranche. Cash costs of the private placement were $73,858 consisting of $41,802 in professional and regulatory fees, and $32,056 in finders' fees. The Company also issued 267,130 compensation warrants valued at $45,413 using a Black-Scholes valuation model. Each compensation warrant is exercisable into one common share of the Corporation for a period of 18 months following the closing date of each tranche at an exercise price of $0.20 per share. The expiry dates for the common share purchase warrants and the compensation warrants from each tranche are February 15 and 27, and March 1, 2015, respectively.

b) Warrant amendments

i. On September 12, 2013, the Company amended the expiry date of 11,250,000 common share purchase warrants (Warrants) issued in three tranches of a non-brokered private placement on March 23, April 9 and April 26, 2012. Each Warrant entitled its holder to purchase one common share of the Company at an exercise price of $0.30 per share for a period of 18 months following the date of issue and accordingly, these were due to expire on September 23, October 9, and October 26, 2013.

The new expiry dates for the Warrants are April 23, May 9 and May 26, 2015, respectively. The new expiry dates of the Warrants will be reduced to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the Warrant (the Premium Trading Days), the closing price of the common shares on the TSXV equals or exceeds $0.37. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the Warrants were unchanged.

The net change in the fair value of the warrants upon amendment was recognized using the Black-Scholes valuation model in the amount of $1,437,500 and was recognized, net of direct cash costs to implement the amendment of $2,483 as an increase in Warrant Capital and a decrease in Contributed Surplus.

ii. On October 29, 2013, 12,500,000 common share purchase warrants (Warrants) exercisable at $0.30 and due to expire on October 31, 2013, were amended. The new expiry date is May 31, 2014, and is subject to a reduction to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the Warrant (the Premium Trading Days), the closing price of the common shares on the TSXV equals or exceeds $0.37. If this occurs, the reduced exercise period of 14 days will begin seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the Warrants were unchanged.

The change in the fair value of the warrants upon amendment was recognized using the Black-Scholes valuation model in the amount of $225,000 and was recognized, net of direct cash costs to implement the amendment of $4,483 as an increase in Warrant Capital and a decrease in Contributed Surplus.

Working Capital

The Company's working capital at the end of Q2-FYE'14 was $823,892 compared to $128,276 at Q1-FYE'14, $53,255 at FYE 2013 and $436,509 at Q2-FYE'13. This increase reflected the positive impact of the private placement financing completed in the quarter as noted above.

Current assets continue to remain liquid, as there are no restrictions on the use of these assets. Cash equivalents are invested in instruments with maturities of three months or less. There were no short-term investments held at Q2-FYE'14 consistent with FYE 2013. Current assets increased to $1,169,729 at Q2-FYE'14 from $431,769 at FYE 2013 for an increase of $737,960, due to the increase in cash and cash equivalents. Current liabilities were modestly lower at Q2-FYE'14 with a balance of $345,837 compared to $378,514 at FYE 2013.

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 carrying values. The Company does not have any derivative financial instruments, nor does it engage in hedging transactions, as risk exposure is limited.

The Company's contractual obligations to third parties at the end of Q2-FYE'14 are limited to the current fiscal year as summarized in Table 10.

Table 10: Contractual Obligations

Obligation	Total	2014	2015
Insurance finance contract	$ 6,156	$ 6,156	$ -
Research and development contracts	74,631	74,631	-
Total contractual obligations	$ 80,787	$ 80,787	$ -

Going Concern Risk

The Company has formulated goals for the upcoming year to advance the testing for COTI-2 in enhancing its attractiveness to potential licensees and to move the AML project and other projects forward as resources permit. For COTI, the material uncertainties related to working capital and cash resources discussed above, 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 and operating cash flows continue to be negative.

In order to accomplish its goals and alleviate the going concern risk, the Company is taking steps to obtain additional cash resources. This includes actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams, and pursuing alternative sources of financing, including but not limited to, raising capital in the public market and securing government grants. As evidence of these efforts, the Company closed private placements

in each of the first two quarters of this fiscal year that raised gross proceeds of approximately $1,754,883. The Company is also investigating the potential to obtain a listing in the U.S. that would enable U.S. retail investors to invest more easily in COTI stock and would facilitate a broader base for future private placement financings. Further, the Company has discretion with many of its expenditure activities and plans to manage these activities in 2014 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the 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 entered contracts denominated in United States dollars (USD) and Euros (EUR), and, as a result, the Company may be exposed to risk from fluctuations in exchange rates between the CAD, USD and EUR. 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.

During Q2-FYE'14, the Company's foreign exchange exposure was exclusively related to the USD. The amount of this exposure is not considered material to the Company's operations with a foreign exchange loss of $1,315 recorded in the quarter compared to a gain of $1,998 in Q2-FYE'13. The loss recorded in Q2-FYE'14 reflects $5,067 in unrealized losses resulting from holding USD cash balances at the quarter-end compared to $1,673 in unrealized gains at Q2-FYE'13.

Related Party Transactions

Material transactions with related parties during the quarter were in the ordinary course of business. These were measured at the transaction amount established and agreed upon by the related parties and included:

a) consulting fees paid or accrued under a fee for service contract with a director in the amount of $34,168 (YTD-FYE'14 - $64,585, YTD-FYE'13 - $97,630); and,

b) a grant of 200,000 share options under the fee for service contract with an exercise price of $0.24, a five-year life and vesting occurring as follows: 50,000 immediately and 50,000 on each of December 1, 2013, and March 1 and June 1, 2014.

Subsequent to the quarter-end, at the Company's AGM held on December 5, 2013, the shareholders approved an amendment to the Company's stock option plan allowing the expiry date of options held by members of the Board who were not standing for re-election at the 2013 AGM to be the earlier of (i) April 30, 2015 or (ii) the original expiry date of such options. This amendment related to 2,204,800 stock options held by four former directors with option prices ranging from $0.15 to $0.90.

Also subsequent to the quarter-end, the Board of Directors amended the vesting date for the options with its consulting director scheduled to vest on March 1 and June 1, 2014 to December 5, 2013. This change was to align these options to be eligible for exercise on a basis similar to the options for the other three directors who did not stand for re-election at the 2013 AGM.

Outstanding Share Information

Outstanding share information at the close of business on December 16, 2013 is set out in Table 11.

Table 11: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	92,682,499	
Diluted [1]	142,616,776	
Weighted average outstanding [2]	86,875,350	
Common share warrants		
$0.37 warrants	1,446,481	Mar 14/14
$0.55 warrants	129,019	Mar 14/14
$0.30 warrants	8,152,500	May 31/14
$0.30 warrants	2,187,500	May 31/14
$0.30 warrants	2,160,000	May 31/14
$0.26 warrants	3,605,258	Jul 29/14
$0.20 compensation warrants	232,652	Jul 29/14
$0.26 warrants	2,412,397	Nov 30/14
$0.20 compensation warrants	23,000	Nov 30/14
$0.26 warrants	2,003,498	Dec 20/14
$0.20 compensation warrants	65,213	Dec 20/14
$0.26 warrants	4,166,666	Feb 15/15
$0.26 warrants	4,974,799	Feb 27/15
$0.20 compensation warrants	181,797	Feb 27/15
$0.26 warrants	1,066,667	Mar 1/15
$0.20 compensation warrants	85,333	Mar 1/15
$0.30 warrants	3,125,000	Apr 23/15
$0.30 warrants	6,250,000	May 9/15
$0.30 warrants	1,875,000	May 26/15
	44,142,780	
Common share stock options		
$0.01 - $0.50	5,496,941	Sep 9/14 - Oct 14 /18
$0.51 - $1.00	294,556	Jun 9/13 - Feb 16/14
	5,791,497	

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

[2] Weighted average shares outstanding calculated from May 1, 2013 to December 17, 2013.

Financial and Operational Progress & Outlook

Financial Outlook for Remainder of Fiscal 2014

The Company continued to conduct further testing on COTI-2 during the quarter in anticipation of completing 28-day toxicity testing and preparing its investigational new drug (IND) filing with the U.S. Food and Drug Administration (FDA). Some of this important testing was conducted at the MD Anderson Cancer Centre in Houston, TX to provide multiple validations of results about the mechanism of action of COTI-2. This testing supports a number of initiatives including: licensing efforts, publication of results in a leading journal, preparation for podium presentations at relevant industry forums, and Phase 1 human clinical trial design considerations. At October 31, 2013, the Company continued to meet with prospective licensing partners for its lead oncology compound, COTI-2.

As highlighted in Liquidity and Capital Resources, the Company is seeking additional funding that will enable the two-species toxicity studies and the IND submission for COTI-2 to be completed and filed with the FDA and provide operational runway for the Company. With the requisite funding, these studies and the submission to the FDA can be completed by mid-2014. The completion of the toxicity studies and the submission to FDA each represent significant risk reduction milestones for the compound and are expected to improve the Company's position in license negotiations.

In addition to licensing efforts for COTI-2, the Company continues to seek R&D development projects with pharmaceutical and biotech companies as well as research scientists for commercial validation of the technology. This is expected to continue in FYE 2014. The three collaborations announced in FYE 2013 have progressed as discussed more fully below. The timing for the completion of these projects is uncertain since the Company is reliant on the project collaborators to complete certain testing following COTI's discovery work. The Company does not anticipate completion of these projects by the end of FYE'14.

R&D expenditures historically have been conducted with contract research organizations in the most cost effective manner considering the opportunity for refundable ITCs in identifying least cost, best value suppliers, and this is anticipated to continue as the Company works through the final testing on COTI-2 and its other projects. The Company anticipates receiving approximately $120,500 in refundable ITC in Q3-F'14 related to its FYE 2013 R&D expenditures.

The Company's strategy to complement the development of COTI-2, and its ultimate licensing, by advancing other drug discovery projects along parallel tracks continued during Q2-FYE'14 with the Company's AML program and is expected to continue in FYE 2014 within the Company's ability to finance such development. The Company has $31,000 in available government assistance to support this research and recognized $2,415 in recoverable government assistance in Q2-FYE'14 (YTD-FYE'14 - $3,290).

Expenditures on G&A and S&M activities for FYE 2014 are expected to be consistent with FYE 2013 provided the Company obtains the necessary financing. Expenditures on intangible assets and capital

assets in FYE 2014 are anticipated to be consistent with FYE 2013, which was primarily on the Company's patent portfolio and computer software. Expenditures on intangible assets for YTD-FYE'14 totaled $90,453 compared to $56,379 for YTD-FYE'13. The difference year over year of $34,074 relates primarily to the timing of certain software licenses, which are being done on a quarterly basis in fiscal 2014 compared to annual upfront payments at the beginning of fiscal 2013. The Company plans to manage its activities within the cash resources available as it has in prior years.

Product Development Progress – Q2-FYE'14 and Future Outlook

The Company continued to make progress in developing its drug candidate pipeline during Q2-FYE'14 with primary focus on COTI-2 and secondary focus on the AML project.

a) COTI-2:

During the quarter, the Company continued development of COTI-2 as additional experiments were commenced in the cancer research laboratories of Dr. Gordon Mills, M.D., Ph.D. Chair of the Department of Systems Biology and the Co-director of the Khalifa Institute for Personalized Cancer Therapy at The University of Texas MD Anderson Cancer Center in Houston, Texas. These preclinical experiments, following the test result announcements of June 11, 2013, were being conducted to broaden the understanding of COTI-2's effect in various mutant p53 tumours and the impact on normal p53 levels in healthy cells. To date, these tests have been repeated multiple times and proven COTI-2 highly active in 15 of the 32 hotspot mutations representing over 30% of all p53 mutations.

This additional preclinical data will provide valuable information for licensing discussions that will enable a very clear direction for human trials. Proving COTI-2 highly active in people with specific p53 mutant tumors represents a potential breakthrough therapy for many cancer patients.

b) Acute Myelogenous Leukemia (AML):

AML is the result of multiple gene mutations that affect multiple cell signaling kinase pathways. With few exceptions, traditional therapies targeting a single abnormal kinase have produced disappointing long-term results. The Company has identified three compounds active in multiple leukemia cell lines including human cell lines with the FLT3 mutant kinase, which is the most frequent molecular mutation in AML. The synthesis of these three compounds was completed in Q1-FYE'14. In Q2-FYE'14, the Company conducted experiments to determine the maximum tolerated oral dose. The Company then commenced experiments in an animal model of FLT3 mutant human AML using MV4-11 tumor cells. All three compounds are being tested at various doses with the goal of selecting a lead and backup compound for continued development towards the clinic and commercial out-licensing. Initial test results received by quarter-end indicated all three to be active and one of the compounds to be particularly active in comparison to the other two compounds. These experiments will be completed in Q3-FYE'14.

c) Other Projects:

Because of limited financial resources, the Company has a number of drug compounds and programs for which further development remains on hold or moves modestly forward based upon available internal resources. The Company is exploring a variety of ways to realize value on its compounds and its technologies or further their development through co-development projects.

Collaborations and Co-Development Projects

As reported for Q1-FYE'14, all the collaborations had moved into the hands of the Company's collaborators. Their efforts under the collaboration agreements proceeded during Q2-FYE'14 but with limited information of significance to report on their progress at the quarter-end. Summary details for these collaborations and their progress since Q1-FYE'14 is set out below.

a) Anti-scarring Discovery Project with Western University:

In July 2012, the Company signed a collaborative research agreement (CRA) effective for two years from July 25, 2012, with Western University (Western) and a Western researcher located in London, Ontario, Canada. Under the agreement, the Company used its proprietary technology CHEMSAS® to discover and optimize novel drug candidates as potential therapies for minimizing central nervous system scarring following trauma or stroke. Seven compounds were provided to the researcher and Western for evaluation as leads for the cellular target in FYE 2013. As previously announced in May 2013, two of the compounds provided under the CRA met the predetermined development criteria and Western was proceeding with further testing on the other compounds provided. At the Q2-FYE'14 quarter-end, Western was seeking additional financing through an international partner to move a number of the compounds into confirmatory animal testing.

b) Angiogenesis Discovery Collaboration with Delmar Chemicals Inc.:

On August 22, 2012, the Company entered into a research and development collaboration agreement to advance selected small molecules with Delmar Chemicals Inc. (DCI) of Montreal, Quebec, Canada. The companies will work together to discover, select, screen and synthesize compounds for highly desirable commercial and therapeutic targets that have been identified as being of specific interest to major pharmaceutical companies.

The initial project targets angiogenesis inhibiting small molecules identified to be of potential interest in the Open Innovation Drug Discovery (OIDD) program. The Company completed the identification, profiling, and optimization of a library of compounds and sent these to DCI for their assessment in FYE 2013. Following assessment, the optimized library of novel structures was submitted and successfully passed the OIDD programs initial computational screens focused on novelty, synthetic feasibility, and potential toxicity. Three compounds selected by COTI and DCI commenced synthesis in Q1-FYE'14 and two of these were completed in Q2-FYE'14, with the third one expected in early Q3-F'14. Once the third compound completes synthesis, the compounds will be submitted to the OIDD program for their lab testing.

c) Lead discovery project with multinational pharmaceutical company:

On December 6, 2012, the Company announced the signing of a drug discovery agreement with a multinational pharmaceutical company (Pharma) whereby COTI would use its proprietary artificial intelligence drug discovery system, CHEMSAS®, to identify and optimize a number of small molecules against a target identified as being of commercial interest to the Pharma.

Under the terms of the agreement, COTI is responsible for the discovery, profiling and optimization of targeted drug candidates in a two-step approach. This involves identifying and delivering an initial set of compounds discovered using CHEMSAS®. The Pharma will then evaluate these compounds and provide COTI with the results of their analysis. Based upon this feedback, COTI will further optimize the compounds. The Pharma will test and evaluate the final optimized compounds and during an option period, decide the suitability of the molecules as leads for the proposed cellular target and conclude a license. If a licensing agreement is not reached, COTI will retain all intellectual property rights to the data and compounds and will be able to engage other interested parties for this program.

In Q1-FYE'14, the Company announced initial test results received from the Pharma indicated a number of the submitted compounds met or exceeded the initial project target objectives and further testing was ongoing. During Q2-FYE'14, the Pharma continued to evaluate the compounds through its assays but had not yet made a decision on which compounds to take into the second step of the project. This guidance is anticipated in Q3-FYE'14 and COTI will then use the data and conclusions from the Pharma's first step report to refine and optimize final candidates for the Pharma to evaluate in the second step of the project.

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 and preclinical stage 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 in Q2-FYE'14 remain substantially unchanged from the analysis discussed at length in the Company's AIF filed in August 2012 and the risk factors discussed in the Q1-FYE'14 and the annual MD&A for FYE 2013.

The four risk categories having the greatest effect on the Company during Q2-FYE'14 and for its past year were:

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

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 outlined the financial challenges hindering project development and efforts to generate the capital needed. 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. COTI's success in obtaining future capital requirements will depend on many factors, such as establishing and maintaining investment industry relationships, collaborative partnering relationships, achieving a licensing agreement for COTI-2, and the general economic conditions and access to capital in the equity markets for biotechnology companies. Despite the Company's ongoing and historical financing efforts, there can be no assurance additional funding will be obtained.

Lack of Revenue

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 inception as a public company in October 2006, COTI has worked to develop relationships with prospective customers, and strived to obtain licensing and collaboration agreements for its own compounds 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 are critical to achieving a revenue realization stage. Accordingly, operating losses are expected to continue until upfront licensing, milestone and royalty payments are sufficient to generate revenues 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.

Securing Adequate Licensing Agreements

The Company's ability to commercialize its products successfully will depend first, on meeting the scientific due diligence requirements of prospective customers and second, on its ability to negotiate satisfactory licensing terms with pharmaceutical or biotechnology organizations for preclinical compounds. While continued positive test results announced during Q2-FYE'14 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date. Licensing discussions during Q2-FYE'14 continued to find interest for preclinical stage deals for novel compounds or classes of compounds. This reflects the macro events occurring within the pharmaceutical industry such as: the blockbuster drugs that continue to come off patent protection; the need to find drugs to replace the revenues lost to generic competition and lower margins on the unprotected brand; and, the continued productivity challenges of the pharmaceutical industry in generating new compounds from their internal R&D. However, the concept of novel and first in class for a mechanism of action (MOA) of a drug candidate means that potential partners have limited scientific experience or knowledge in the subject MOA hence their level of due diligence is markedly higher. This also leads to a desire to see human test results to provide further confidence around the

novel MOA. The outcome of such due diligence and further testing cannot be guaranteed to lead to a licensing agreement for COTI-2.

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. COTI believes its CHEMSAS® process serves to mitigate or reduce this risk by virtue of profiling across many variables in identifying compounds with a high probability of successfully becoming drugs, however, its predictions remain a probability only and accordingly failure can occur. COTI's lead compound, COTI-2, continues to progress through preclinical testing and perform as predicted, and is currently in the final preclinical two-species toxicity testing. Once successfully completed, the Company plans to file an investigational new drug submission to the FDA for the compound and be in a position to proceed to Phase 1 human trials.

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. 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. Table 12 sets out a reconciliation of the Company's calculation of Capital Resources with the amounts shown in the Statement of Financial Position. The short-term investments in Q2-FYE'13 were guaranteed investment certificates encashable at any time up to the maturity date. With such high liquidity characteristics, management considers such investments as a readily available source of capital. Management believes the inclusion of short-term investments as part of Capital Resources provides more meaningful information with respect to the Company's liquidity.

Table 12: Reconciliation to Capital Resources

	Q2-FYE'14	Q2-FYE'13
Cash and cash equivalents per financial statements	$ 958,401	$ 354,144
Short-term investments per financial statements	-	221,386
Capital resources	$ 958,401	$ 575,530

Changes in Accounting Policies

Details regarding the adoption of new accounting pronouncements in FYE 2014 and future accounting policy changes affecting FYE 2014 based upon new accounting pronouncements are set out below.

1. Adoption of new accounting pronouncements

    a) Early adoption

During FYE 2013, the Company entered into agreements for the discovery of drug compounds with other entities. Consequently, the Company elected to early adopt IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 10 Consolidated Financial Statements, IAS 27 (2011) Separate Financial Statements and IAS 28 (2011) Investments in Associates and Joint Ventures in its interim financial statements commencing in Q2-FYE'13.

Accordingly, the standards required to be applied for annual periods beginning on January 1, 2013 that were early adopted are as follows:

(i) IFRS 11 Joint Arrangements:

IFRS 11 replaces the guidance in IAS 31 Interests in Joint Ventures. IFRS 11 focuses on the rights and obligations of an arrangement, rather than its legal form and establishes accounting principles in classifying interests in joint arrangements as either joint ventures or joint operations. The standard requires interests in jointly controlled entities to be accounted for under the equity method.

A joint arrangement not structured through a separate vehicle is considered a joint operation. Under the standard, the two agreements entered into by the Company during the quarter have each been determined to be a joint operation. In a joint operation the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. Accordingly, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the contractual arrangement.

There was no material impact on the Company's interim financial statements as a result of this adoption. The nature of the Company's joint operations was fully described in note 10 to the April 30, 2013 annual financial statements.

(ii) IFRS 12 Disclosure of Interests in Other Entities:

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities. The disclosure requirements widely define interests as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. Disclosures required by this standard are included in note 10.

(iii) IFRS 10 Consolidated Financial Statements:

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (amended 2011) survives as Separate Financial Statements, to only carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (amended 2008). The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(iv) IAS 27 (amended 2011) Separate Financial Statements:

This amended pronouncement removes the requirements for consolidated statements from IAS 27 and moves it over to IFRS 10 Consolidated Financial Statements. The amendment mandates that when a company prepares separate financial statements, investment in subsidiaries, associates, and jointly controlled entities are accounted for using the cost method or in accordance with IFRS 9 Financial Instruments. The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

(v) IAS 28 (amended 2011) Investments in Associates and Joint Ventures:

This amended pronouncement requires any retained portion of an investment in an associate or joint venture that has not been classified as held for sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendment requires this retained interest to continue to be accounted for under the equity method. The amendment also disallows the remeasurement of any retained interest in an investment upon the cessation of significant influence or joint control. The Company has assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

b) Accounting policy changes affecting FYE 2014 not adopted early

(i) IAS 19 – Employee Benefits:

In June 2011, the IASB published an amended version of IAS 19, Employee Benefits. The amendments had the following impacts: a Company's employee benefits must now be classified as either short term or long term and the timing of recognizing termination benefits has changed. Termination benefits are now recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits. The Company has no termination benefits and all the employee benefit costs it incurs for its employees under its benefits program are short term in nature as previously reported such that adopting the amendments for the annual period beginning on May 1, 2013, had no impact on the financial statements.

(ii) IFRS 13 – Fair Value Measurement:

In May 2011, the IASB issued IFRS 13 – Fair Value Measurement (IFRS 13), which replaced the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures that enable users to assess the methods and inputs used to develop fair value measurements be disclosed in both the Company's interim and annual financial statements commencing May 1, 2013. The Company determined that adoption of this pronouncement had no impact on its disclosures for the YTD-FYE'14 interim financial statements.

(iii) IAS 1 – Presentation of Financial Statements:

In June 2011, the IASB amended IAS 1 – Presentation of Financial Statements. This amendment requires an entity to present separately the items of "Other Comprehensive Income" as items that may or may not be reclassified to profit and loss. This amended standard is effective for the Company's interim and annual financial statements commencing May 1, 2013. Adoption of this standard had no impact on the Company's YTD-FYE'14 interim financial statements as the Company does not current have any items that are considered "Other Comprehensive Income".

(iv) Annual improvements to IFRSs 2009-2011 Cycle – Various Standards:

In May 2012, the IASB published Annual Improvements to IFRSs – 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to the following four standards with consequential amendments to other standards and interpretations:

- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

The Company adopted the amendments to the standards in its interim financial statements for YTD-FYE'14 with minimal impact.

2. Future accounting policy changes

Certain pronouncements have been issued by the International Accounting Standards Board (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. One pronouncement is currently being assessed to determine its impact on the Company's results and financial position as follows:

(i) IFRS 9 – Financial Instruments:

In October 2010, the IASB issued IFRS 9 – Financial Instruments (IFRS 9), which replaced IAS 39 – Financial Instruments: Recognition and Measurement. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual financial statements commencing May 1, 2015.