Critical Outcome Technologies Inc.

Unaudited Condensed Interim Financial Statements
Fiscal 2015 – Second Quarter

For the three and six months ended October 31, 2014 and 2013

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Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying Interim Statements of Financial Position as at October 31, 2014, and April 30, 2014, of Critical Outcome Technologies Inc., and the Interim Statements of Comprehensive Loss for the three and six month periods ended October 31, 2014 and 2013, and the Interim Statements of Changes in Equity and the Interim Statements of Cash Flows for the six month periods ended October 31, 2014 and 2013, have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

Neither an audit nor review of the Interim Financial Statements is required by the Company's independent auditor under regulatory reporting requirements, however, under National Instrument 51-102 paragraph 4.3(3)(a), the Company must advise whether a review has occurred or not. Accordingly, management advises that the Company's independent auditor, KPMG LLP, was not engaged to perform a review of these Interim Financial Statements.

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Financial Position

(All amounts in Canadian dollars)

(Unaudited)

As at	October 31, 2014	April 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 837,884	$ 830,275
Investment tax credits and other receivables	175,650	149,754
Prepaid expenses and deposits	126,945	79,673
	1,140,479	1,059,702
Non-currents assets:		
Equipment	34,423	38,068
Intangible assets (note 5)	1,229,477	1,429,933
	1,263,900	1,468,001
	$ 2,404,379	$ 2,527,703
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 518,771	$ 683,895
Debenture (note 6)	381,197	346,666
	899,968	1,030,561
Shareholders' equity	1,504,411	1,497,142
	$ 2,404,379	$ 2,527,703

Going concern (note 2)

Commitments (note 10)

Contingency (note 12)

Subsequent events (note 13)

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Comprehensive Loss

(All amounts in Canadian dollars)

(Unaudited)

	Three months ended		Six months ended	
	October 31, 2014	**October 31, 2013**	**October 31, 2014**	**October 31, 2013**
Expenses (income):				
Research and product development	355,102	124,050	589,942	257,193
Sales and marketing	67,280	43,024	110,685	45,136
General and administration	541,430	445,561	1,260,204	816,878
Investment tax credits	(39,576)	(13,606)	(85,597)	(20,699)
	924,236	599,029	1,875,234	1,098,508
Loss before finance income (expense)	(924,236)	(599,029)	(1,875,234)	(1,098,508)
Finance income (expense):				
Interest income (loss)	(18,742)	1,673	(37,227)	1,550
Foreign exchange gain (loss)	(3,226)	(864)	(4,539)	(1,315)
	(21,968)	809	(41,766)	235
Loss and comprehensive loss	$ (946,204)	$ (598,220)	$ (1,917,000)	$ (1,098,273)
Loss per share:				
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.
Interim Statements of Changes in Shareholders' Equity
(All amounts in Canadian dollars)
(Unaudited)

For the six months ended October 31, 2014

	Common Shares	Warrants	Total Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2014	$ 17,793,769	$ 5,264,035	$ 23,057,804	$ 389,483	$ (21,950,145)	$ 1,497,142
Issuance of shares and warrants (note 7)	864,361	559,594	1,423,955	-	-	1,423,955
Warrant amendments (note 7(d))	-	1,239,436	1,239,436	(1,248,001)	-	(8,565)
Warrant exercises (note 7(b))	392,706	-	392,706	-	-	392,706
Share-based compensation (note 8)	-	-	-	53,788	-	53,788
Option exercises (note 7(c))	107,385	-	107,385	(45,000)	-	62,385
Loss and comprehensive loss	-	-	-	-	(1,917,000)	(1,917,000)
Balance, October 31, 2014	$ 19,158,221	$ 7,063,065	$ 26,221,286	$ (849,730)	$ (23,867,145)	$ 1,504,411

For the six months ended October 31, 2013

	Common Shares	Warrants	Total Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2013	$ 16,416,798	$ 2,493,115	$ 18,909,913	$ 1,922,193	$ (18,953,966)	$ 1,878,140
Issuance of shares and warrants	998,791	647,727	1,646,518	-	-	1,646,518
Warrant amendments	-	1,655,534	1,655,534	(1,662,500)	-	(6,966)
Warrant expiries	-	(29,838)	(29,838)	29,838	-	-
Share-based compensation	-	-	-	56,129	-	56,129
Loss and comprehensive loss	-	-	-	-	(1,098,273)	(1,098,273)
Balance, October 31, 2013	$ 17,415,589	$ 4,766,538	$ 22,182,127	$ 345,660	$ (20,052,239)	$ 2,475,548

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.

Interim Statements of Cash Flows

(All amounts in Canadian dollars)

(Unaudited)

For the six months ended	**October 31, 2014**	**October 31, 2013**
Cash provided by (used in):		
Operating activities:		
Loss	$ (1,917,000)	$ (1,098,273)
Items not involving cash:		
Amortization - equipment	5,953	6,423
Amortization - intangible assets	261,046	258,170
Accretion expense	34,531	-
Share-based compensation	53,788	56,129
Warrants issued in payment of consulting services	265,200	-
Investment tax credits	(85,597)	(20,699)
Interest (income) expense	37,227	(1,550)
Foreign exchange (gain) loss	4,539	1,315
	(1,340,313)	(798,485)
Change in non-cash operating working capital (note 9)	(252,050)	39,786
Foreign exchange (income) loss	(2,614)	3,752
Interest received	3,317	2,014
Net cash (used in) operating activities	(1,591,660)	(752,933)
Investing activities:		
Purchase of equipment	(2,308)	(903)
Expenditures on intangible assets	(60,590)	(90,453)
Net cash (used in) provided by investing activities	(62,898)	(91,356)
Financing activities:		
Proceeds from issuance of common shares and warrants	1,736,394	1,754,883
Costs of issuance of common shares and warrants	(122,548)	(108,365)
Costs of warrant amendments	(8,565)	(6,966)
Investment tax credit recoveries	72,726	-
Interest paid	(22,993)	(1,142)
Net cash provided by financing activities	1,655,014	1,638,410
Increase (decrease) in cash and cash equivalents	456	794,121
Effect of exchange rate fluctuations on cash and cash equivalents	7,153	(5,067)
Cash and cash equivalents, beginning of the period	830,275	169,347
Cash and cash equivalents, end of the period	$ 837,884	$ 958,401
Represented by:		
Cash	$ 143,320	$ 149,791
Cash equivalents	694,564	808,610
	$ 837,884	$ 958,401

See accompanying notes to interim financial statements

1. Corporate information:

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

COTI is a public corporation trading in Canada on the TSX Venture Exchange ("TSXV") under the trading symbol "COT" and is listed for trading on the OTCQB in the United States under the symbol "COTQF". The Company is incorporated under the laws of the Province of Ontario, Canada with its registered office located at Suite 213, 700 Collip Circle, London, Ontario, Canada, N6G 4X8.

2. Going concern:

The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. For COTI, there are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. In particular, the Company has not yet established operating revenues and operating cash flows continue to be negative. Key financial results for the six months ended October 31, 2014 and 2013 indicative of concern include a loss of $1,917,000 (October 31, 2013 – $1,098,273) and negative cash flow from operations of $1,591,660 (October 31, 2013 – $752,933). As at October 31, 2014, the Company had a deficit of $23,867,145 (April 30, 2014 – $21,950,145), which results in shareholders' equity of $1,504,411 (April 30, 2014 – $1,497,142). As at October 31, 2014, the Company had working capital of $240,511 (April 30, 2014 – $29,141).

The Company is dependent upon key personnel and the need to raise additional funds to support the Company's continuing development and to meet liabilities and commitments as they become due while executing its business plan. The Company is taking steps to address the going concern risk by 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.

The Company has discretion with many of its expenditure activities and plans to manage these activities in fiscal 2015 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.

Subsequent to the quarter-end, the Company realized gross proceeds of $2,111,232 in financing from two tranches of a private placement that commenced in the quarter and from the exercise of warrants issued in prior years' private placements (note 13(a) and (c)).

The accompanying Interim Financial Statements have been prepared assuming that the Company will continue as a going concern. Accordingly, these Interim Financial Statements do not include any adjustments to the carrying values and classifications of assets and liabilities, or the reported expenses that would be necessary if the going concern assumption was not appropriate. Any adjustments to the Interim Financial Statements could be material.

3. Basis of preparation:

(a) Compliance with accounting standards:

These Interim Financial Statements for the six months ended October 31, 2014 and October 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and specifically International Accounting Standard ("IAS"), IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The accounting policies in these fiscal 2015 Interim Financial Statements are consistent with the policies the Company adopted in its Annual Financial Statements as at, and for the year ending, April 30, 2014. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2014, Annual Financial Statements. COTI has also prepared these Interim Financial Statements on an individual entity basis, as it has no subsidiaries. Management has determined that the Company operates in one reportable segment based on the business activities reflected in its revenues and expenses since inception.

In preparing these Interim Financial Statements, certain information and disclosures normally included in the notes to the Annual Financial Statements are condensed or not presented. These Interim Financial Statements should be read in conjunction with the Company's most recent Annual Financial Statements as of April 30, 2014, and related notes.

These Interim Financial Statements were approved for issuance by the Audit Committee on December 16, 2014.

(b) Basis of measurement:

The Interim Financial Statements have been prepared on a historical cost basis. The Statements of Comprehensive Loss are presented using the functional classification for expenses.

(c) Functional and presentation currency:

These Interim Financial Statements are presented in Canadian dollars ("CAD"), which is the functional currency of the economic environment in which the Company operates.

(d) Use of estimates and judgments:

The preparation of these Interim Financial Statements in conformity with IFRS requires the Company to apply judgement when making estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses at the date of the Interim Financial Statements. There is a degree of measurement uncertainty inherent in the Company's estimates and assumptions and accordingly, changes in these estimates and assumptions could result in material adjustments to the carrying amounts of assets and liabilities in future periods. There has been no material change in the significant estimates and assumptions as described in note 4 (d) of the Annual Financial Statements for the year ended April 30, 2014.

4. Significant accounting policies:

The accounting policies as set out in detail in note 5 of the Annual Financial Statements for the year ended April 30, 2014, have been applied consistently to all periods presented in these Interim Financial Statements.

(a) Adoption of new accounting pronouncements:

The Company adopted new accounting pronouncements commencing in the first quarter of this fiscal year, details of which were described in the Company's April 30, 2014 Annual Financial Statements. These standards did not have a significant impact on the Company's year-to-date Interim Financial Statements and included the following:

i. IAS 32 – Financial Statements: Presentation

ii. IAS 36 – Impairment of Assets

(b) Recent accounting pronouncements not yet adopted

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued new standards or amended existing standards that affect the Company but which have not been applied in preparing these interim financial statements as their effective dates fall in annual periods beginning subsequent to the current reporting period as follows:

i. IFRS 9 - Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities which when implemented will eliminate the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. The IASB has tentatively decided on an effective date of January 1, 2018. The Company will be assessing the impact of the issued and proposed changes to IFRS 9 and does not intend to early adopt these changes.

ii. IFRS 15 - Revenue from Contracts with Customers

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

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

In December 2013, the IASB issued narrow-scope amendments to nine standards as part of its annual improvements process. Not all amendments to the nine standards are applicable to the Company's business. The amendments that may affect the Company based upon its current operations, and the clarifications to the respective standards are as follows:

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

Most amendments apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRS standards would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on May 1, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

(All amounts in Canadian dollars)

5. Intangible assets:

Summary details of the Company's intangible assets at October 31, 2014, appear in the following table.

As at Oct 31, 2014	Molecules	Granted Patents	Pending Patents	Computer Software	Total
Cost, Apr 30, 2014	$ 3,275,785	$ 355,565	$ 413,412	$ 141,802	$ 4,186,564
Additions	-	2,074	52,968	5,548	60,590
Transfers upon patent grant	-	49,578	(49,578)	-	-
Expired software licenses	-	-	-	(72,650)	(72,650)
Cost, Oct 31, 2014	3,275,785	407,217	416,802	74,700	4,174,504
Accumulated amortization, Apr 30, 2014	(2,596,202)	(85,563)	-	(74,866)	(2,756,631)
Amortization	(214,605)	(11,756)	-	(34,685)	(261,046)
Expired software licenses	-	-	-	72,650	72,650
Accumulated amortization, Oct 31, 2014	(2,810,807)	(97,319)	-	(36,901)	(2,945,027)
Net carrying value, Oct 31, 2014	$ 464,978	$ 309,898	$ 416,802	$ 37,799	$ 1,229,477

6. Debenture:

The Debenture agreement for proceeds of $400,000 entered into on February 5, 2014, has a term of one year from the date of issuance and bears interest at a rate of 10%, with interest only payable on a monthly basis. The Company also issued a general security agreement in favour of the lender in support of the Debenture. The Company has the option to repay the Debenture before its maturity date for a redemption fee of $40,000. The lender has the option to apply the redemption fee to a participation in any equity financing undertaken by the Company in calendar 2014 related to the repayment of the Debenture on the same terms and conditions as that financing.

As the Debenture contained both a liability component and an equity component represented by Debenture Warrants, the fair value of the liability was determined using a discounted cash flow model and the equity component was estimated using the residual method. The present value of the debenture and its interest payments was calculated at a discount rate of 20%, which was the estimated borrowing rate available to the Company for a similar debenture having no Debenture Warrants. The interest discount is being accreted to the Debenture on a monthly basis to the date of maturity with $9,255 recorded as interest expense in the current quarter ($25,814 since inception). The financing costs allocated to the Debenture of $32,678 were recognized as a reduction in the value of the Debenture and are being accreted on a monthly basis to the date of maturity with accretion of $8,236 recorded as financing expense in the current quarter ($24,083 since inception).

Details concerning the Debenture are summarized below.

	Face Value	Carrying Value
Balance, at issuance	$ 400,000	$ 331,300
Accretion expense	-	49,897
Balance, October 31, 2014	$ 400,000	$ 381,197

(All amounts in Canadian dollars)

7. Share capital:

Summary details of the Company’s share capital at October 31, 2014, with comparable amounts for April 30, 2014, appear in the following table.

		October 31, 2014			April 30, 2014		
	Expiry Date Ranges	Issued		Amount	Issued		Amount
Share capital:							
Authorized:							
Unlimited common shares							
Unlimited preference shares							
Issued and fully paid:							
Common shares, without par value		105,760,938	$	19,158,221	96,807,979	$	17,793,769
Common share purchase warrants:							
$0.20 compensation warrants	Jul 29/14	-		-	232,652		19,543
$0.20 warrants	Feb 4/15	1,250,000		32,786	1,250,000		32,786
$0.20 compensation warrants	Nov 30/14 - Mar 1/15	288,861		45,496	355,343		52,424
$0.26 warrants	Nov 30/14 - Mar 1/15	14,624,027		595,302	14,624,027		595,302
$0.37 warrants	Mar 31/15	1,446,481		441,956	1,446,481		441,956
$0.55 warrants	Mar 31/15	129,019		32,581	129,019		32,581
$0.30 warrants	Apr 23 - May 26/15	10,625,000		1,790,689	11,250,000		1,899,753
$0.26 warrants	Jan 29/16	3,569,458		505,643	3,605,258		126,761
$0.30 warrants	Mar 15/16	12,500,000		2,518,901	12,500,000		1,659,850
$0.28 warrants	Apr 29 - Jun 2/16	8,951,385		385,072	3,356,250		131,154
$0.22 compensation warrants	Apr 29 - Jun 2/16	461,110		38,436	242,000		17,182
$0.26 warrants	Feb 4/19	769,230		40,392	769,230		40,392
$0.19 USD compensation warrants	Apr 11 - Jun 6/19	3,000,000		472,222	1,500,000		214,351
$0.34 USD warrants	Oct 16/19	2,012,698		146,601	-		-
$0.26 USD compensation warrants	Oct 16/19	147,720		16,988	-		-
		59,774,989		7,063,065	51,260,260		5,264,035
			$	26,221,286		$	23,057,804

A summary of the changes in common share capital is set out below.

	Shares		Amount
Balance April 30, 2014	96,807,979	$	17,793,769
Shares issued - private placement (note 7 (a)i)	5,595,135		562,651
Shares issued - private placement issuance costs (note 7 (a)ii)	-		(2,800)
Shares issued - private placement (note 7 (a)iii)	2,012,698		304,510
Shares issued - warrant exercise (note 7 (b))	959,934		392,706
Shares issued - option exercise (note 7 (c))	385,192		107,385
	8,952,959		1,364,452
Balance October 31, 2014	105,760,938	$	19,158,221

(All amounts in Canadian dollars)

A summary of the changes in warrant capital is set out below.

	Warrants		Amount
Balance April 30, 2014	51,260,260	$	5,264,035
Warrants issued - private placement (note 7 (a)i)	5,595,135		255,038
Warrants issued - private placement (note 7 (a)ii)	-		(1,120)
Warrants issued - private placement (note 7 (a)iii)	2,012,698		146,600
Warrants issued - private placement compensation (note 7 (a)i)	219,110		21,254
Warrants issued - private placement compensation (note 7 (a)iii)	147,720		16,988
Warrants exercised (note 7 (b))	(959,934)		(137,037)
Warrants amended (note 7 (d)i)	-		859,051
Warrants amended (note 7 (d)ii)	-		380,385
Warrants issued - consulting (note 7 (e))	1,500,000		257,871
	8,514,729		1,799,030
Balance October 31, 2014	59,774,989	$	7,063,065

Details concerning the share capital transactions are summarized below.

(a) Private placements:

i. On June 3, 2014, the Company completed the second tranche of a non-brokered private placement with the first tranche having closed on April 30, 2014. Under the second tranche, the Company issued 5,595,135 units consisting of one common share and one warrant at $0.16 per unit for gross proceeds of $895,222. Each common share purchase warrant is exercisable for one common share at an exercise price of $0.28 for a period of 24 months following the date of issue. The Company paid cash costs of $56,278 related to the placement consisting of professional and legal fees of $21,220, and $35,058 in finders' fees. The Company also issued 219,110 compensation warrants valued at $21,254 with each compensation warrant exercisable for one common share at an exercise price of $0.22 for a period of 24 months from the date of issue. The expiry date for the common share purchase warrants and the compensation warrants is June 2, 2016.

The common share purchase warrants were valued using a Black-Scholes valuation model with the following assumptions:

Common share market price	$0.19
Risk free interest rate	1.066%
Expected dividend yield	-
Expected common share price volatility	103.86%
Expected warrant life in years	2.00

(All amounts in Canadian dollars)

The common share purchase warrants were allocated a portion of the proceeds and private placement costs based upon their relative fair market value at the date of issuance. Accordingly, $279,198 in gross proceeds and $24,159 in costs were allocated to these warrants.

ii. Subsequent to the April 30, 2014, year-end, additional legal fees and regulatory costs of $3,920 were recognized related to the first tranche of the private placement that closed on April 30, 2014. These costs were recognized as a decrease in Share Capital of $2,800 and a decrease in Warrant Capital of $1,120.

iii. On October 17, 2014, the Company completed the first tranche of a non-brokered private placement and issued 2,012,698 units consisting of one common share and one warrant at USD $0.23 per unit for gross proceeds of CAD $522,035. Each common share purchase warrant is exercisable for one common share at an exercise price of USD $0.34 for a period of 60 months following the date of issue. The Company paid cash costs of $53,937 related to the placement consisting of professional and legal fees of $15,734, and $38,203 in finders' fees. The Company also issued 147,720 compensation warrants valued at $16,988 with each compensation warrant exercisable for one common share at an exercise price of USD $0.26 for a period of 60 months from the date of issue. The expiry date for the common share purchase warrants and the compensation warrants is October 16, 2019 provided that the expiry date of all warrants will be reduced to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrants, the closing price of the common shares listed on the TSX Venture Exchange equals or exceeds three times the exercise price of the respective warrants issued in the Offering.

The common share purchase warrants were valued using a Black-Scholes valuation model with the following assumptions:

Common share market price	$0.383
Risk free interest rate	1.182%
Expected dividend yield	-
Expected common share price volatility	101.64
Expected warrant life in years	2.26

The common share purchase warrants were allocated a portion of the proceeds and private placement costs based upon their relative fair market value at the date of issuance. Accordingly, $169,651 in gross proceeds and $23,051 in costs were allocated to these warrants.

(All amounts in Canadian dollars)

(b) Warrant exercises:

During the three and six month periods ended October 31, 2014, warrant holders exercised common share purchase warrants and compensation warrants. The gross proceeds of these exercises plus the value attributed to these warrants on the initial grant less the costs to issue the common shares upon the exercise were recorded as common share capital and the warrant capital account relieved as summarized below.

Warrant type	Exercised		Proceeds		Warrant value		Issuance cost		Share capital
$0.26 common share	35,800	$	9,308	$	1,504	$	98	$	10,714
$0.20 compensation	299,134		59,826		26,471		480		85,817
$0.30 common share	625,000		187,500		109,062		387		296,175
	959,934	$	256,634	$	137,037	$	965	$	392,706

(c) Share option exercises:

On June 20, 2014, 210,773 Share Options were exercised at a price of $0.16 per common share and 174,419 Share Options were exercised at a price of $0.165 per common share. Concurrent with these exercises, the Company was required to transfer to Share Capital the value previously recognized in Contributed Surplus at the time of the Share Options being granted. Accordingly, gross proceeds of $62,503 received on exercise, net of issuance costs of $118, and the transfer of $45,000 from Contributed Surplus resulted in an increase in Share Capital of $107,385.

(d) Warrant amendments:

i. On May 27, 2014, 12,500,000 common share purchase warrants exercisable at $0.30 and due to expire on May 31, 2014, were amended. The new expiry date is March 15, 2016, and is subject to a reduction 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 $0.60. 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 a Black-Scholes valuation model in the amount of $862,500 and was recognized, net of direct cash costs to implement the amendment of $3,449 as an increase in Warrant Capital and a decrease in Contributed Surplus.

(All amounts in Canadian dollars)

The assumptions used in the model were as follows:

Common share market price	$0.195
Risk free interest rate	1.24%
Expected dividend yield	-
Expected common share price volatility	97.82%
Expected warrant life in years	1.80

ii. On July 16, 2014, 3,569,458 common share purchase warrants exercisable at $0.26 and due to expire on July 29, 2014, were amended. The new expiry date is January 29, 2016, and is subject to a reduction 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 $0.60. 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 change in the fair value of the warrants upon amendment was recognized using the Black-Scholes valuation model in the amount of $385,501 and was recognized, net of direct cash costs to implement the amendment of $3,133 as an increase in Warrant Capital and a decrease in Contributed Surplus. The assumptions used in the model were as follows:

Common share market price	$0.255
Risk free interest rate	0.95%
Expected dividend yield	-
Expected common share price volatility	106.43%
Expected warrant life in years	1.54

(e) Warrant issuances:

On May 5 and May 6, 2014, the Company issued 210,000 and 540,000 common share purchase warrants, respectively, to a U.S. investment bank under the terms of a strategic financing advisory agreement signed in February 2014. The warrants, exercisable to buy one common share at a price of USD $0.19, vested immediately upon issuance and have a term of five years expiring on May 4 and May 5, 2019, respectively.

On June 6, 2014, an additional 750,000 common share purchase warrants were issued under the same above-mentioned terms, with an expiry date of June 5, 2019. The warrants and any shares issued upon warrant exercise are subject to a hold period related to resale in Canada of four months plus one day from the date of issuance and a hold period in the United States in accordance with applicable securities laws. Cash costs of the issuance were $7,329 primarily for professional fees.

(All amounts in Canadian dollars)

The common share purchase warrants were valued using a Black-Scholes valuation model with the following assumptions:

	May 5	May 6	June 6
Common share market price	$ 0.186	$ 0.185	$ 0.267
Risk free interest rate	2.001%	2.001%	2.001%
Expected dividend yield	-	-	-
Estimated common share price volatility	106.06%	114.48%	104.67%
Estimated warrant life in years	4.75	4.75	4.75

The fair market value of $265,200 calculated for the warrants was recognized as a consulting expense in General and administration.

8. Share-based compensation:

On October 22, 2014, 1,801,099 share options were granted to the directors and employees of the Company with an exercise price of $0.29. The options have a five-year life and vest quarterly on an equal basis at the end of each quarter during the first year except for 30,000 options granted to an employee that vest quarterly on an equal basis starting March 1, 2015.

The assumptions used in the Black-Scholes option-pricing model were as follows:

	Directors	Employees
Risk free interest rate	1.35 - 1.44%	1.14%
Expected dividend yield	-	-
Estimated average share volatility	104.14 - 114.96%	104.26%
Estimated average option life in years	4.00 - 4.49	3.17
Estimated total share option compensation	$ 235,242	$ 90,344

For the three and six months ended October 31, 2014, the Company recognized share-based compensation expense of $28,860 and $53,788 respectively (October 31, 2013 – $36,189 and $56,129) related to the vesting of share options granted during the quarter and in prior periods that did not vest immediately upon initial grant. These amounts were included in General and administration expense.

At October 31, 2014, there were 7,365,549 unexercised options with 5,321,658 of these vested and exercisable at prices ranging from $0.14 to $0.47 per share.

(All amounts in Canadian dollars)

9. Supplementary cash flow information:

As at October 31	2014	2013
Change in non-cash working capital:		
Other receivables	$ (39,654)	$ 33,581
Prepaid expenses and deposits	(47,272)	38,882
Accounts payable and accrued liabilities	(165,124)	(32,677)
	$ (252,050)	$ 39,786

The Company also engaged in financing transactions that did not involve the use of cash as set out below.

As at October 31	2014	2013
Warrants issued as compensation in private placements	$ 38,241	$ 52,423
Warrants amended to extend the time to expiry	1,248,001	1,662,500
	$ 1,286,242	$ 1,714,923

10. Commitments:

At the quarter-end, the Company had commitments to pay $212,032 for the completion of research and development contracts and $6,107 for an insurance financing contract during the remainder of fiscal 2015.

11. Related party transactions:

Material transactions with related parties that occurred during the quarter were in the ordinary course of business and related to the following:

(a) A director participated in the private placement that closed on October 17, 2014 (note 7 (a) iii) investing USD $27,485 for 119,500 units at USD $0.23 per unit representing 5.9% of the private placement;

(b) The directors were granted share options (note 8 (a)) at the Board of Directors meeting following the Company's Annual General Meeting as compensation for their services for the upcoming year; and,

(c) Share options to acquire 481,483 common shares granted to directors in prior periods expired.

12. Contingency

The Company is currently contingently liable for the issuance of 715,721 common shares as part of the purchase consideration related to the purchase of a library of molecules ("Molecule") in November 2007. This contingent consideration related to one Molecule achieving two development milestones as follows:

(a) the Company being given notification of acceptance of an investigational new drug filing ("IND") and receipt of an IND acceptance number; and,

(b) either the United States or the European patent authorities issuing the Company a final patent.

If by November 27, 2015, the eighth anniversary date of the transaction, these milestones are not achieved and the contingent consideration not paid, and if the Company has not abandoned its efforts to develop and commercialize the molecules by this anniversary date, the Company is required to:

(a) issue the remaining contingent consideration at fair value, or,

(b) pay cash consideration equal to the amount by which the fair value of the Molecules purchased in the transaction exceed the amount invested in the Molecules by the Company. If the fair value of the Molecules purchased in the transaction is less than the amount invested in the Molecules by the Company, no consideration is payable.

In 2012, the Company received a U.S. patent for a Molecule, COTI-2, that represented the achievement of one of the milestones and issued 715,720 common shares as payment for one-half of the contingent consideration. The Company is currently preparing an IND submission to take COTI-2 into a Phase 1 human trial for gynecological cancers. The timing of filing the IND is uncertain and the timing of possible acceptance and issuance of an IND acceptance number is also uncertain. Accordingly, the Company has determined that the achievement of the IND milestone for COTI-2 does not meet the guidance provided in IAS 37 – Provisions, contingent liabilities and contingent assets as a present obligation such that a provision in the financial statements is appropriate. Major factors creating this uncertainty included; the cost, time and expertise required in completing the IND application; the uncertainty inherent in the timing and obtaining of the remaining data for COTI-2 related to manufacturing, scale-up, dispensing and stability; and finally the risk of the IND application not being approved by the U.S. Food and Drug Administration.

13. Subsequent events:

(a) Private Placement:

The Company completed the second and third tranches of a non-brokered private placement on November 6 and 25, 2014, respectively. The first tranche closed on October 17, 2014 (note 7 (a) iii). In aggregate, the Company issued 8,165,062 units consisting of one common share and one warrant at USD $0.23 per unit for gross proceeds of approximately $2,111,232 in the second and third tranches.

The Company paid aggregate finders' fees in connection with these two tranches of $110,802 in cash and issued 430,396 compensation warrants. Each common share purchase warrant is exercisable for one common share at an exercise price of USD $0.34 and each compensation warrant is exercisable for one common share at an exercise price of USD $0.26 for a period of 60 months from the date of issue.

(b) Warrant amendment:

On November 13, 2014, 2,412,397 common share purchase warrants previously issued on May 31, 2013, and due to expire on November 30, 2014, were amended. These warrants are exercisable at $0.26 with a new expiry date of July 31, 2015. The new expiry date will be accelerated 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 $0.35. 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.

(c) Warrant exercise:

In November and December 2014, the Company realized total gross proceeds of $9,699 related to the exercise of 48,496 compensation warrants exercisable at $0.20.