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

Fiscal 2015 – Second Quarter
for the three and six month periods ended October 31, 2014

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Overview

The following Management Discussion and Analysis ("MD&A") is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or "the Company") for the three and six month periods ended October 31, 2014. 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 16, 2014. Disclosure contained in this document is current to this date, unless otherwise stated. This analysis should be read in conjunction with the unaudited condensed interim financial statements ("Interim Financial Statements") and notes thereto for the three and six month periods ended October 31, 2014. These Interim Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and in particular with International Accounting Standard 34: Interim Financial Reporting.

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

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

Forward-looking Statements

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

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

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Our Business	• Intends to license its targeted molecules • 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	• Plans to seek additional cash resources • Future financing from amended warrants • Plans to raise capital in the U.S.
Foreign Exchange Exposure	• Expectation of continued low exposure to currency fluctuations from research contracts denominated in foreign currency
Financial and Operational Progress & Outlook	• Outline of key operating objectives in 2015 • Scientific experiments for COTI-2 progressing to optimize the licensing value of the drug candidate to Phase 1 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 • New applications of CHEMSAS® to be launched • New technologies under development
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 2015 of new accounting standards issued by the Accounting Standards Board

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

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

- An ability to obtain sufficient financing to support working capital requirements and fund further research and development initiatives;
- An ability to further enhance and add features to the CHEMSAS® technology or incorporate advances in artificial intelligence for internal and collaborative purposes;

- A continuation of favourable preclinical test results from the COTI-2 program and an ability to meet the requirements for regulatory approval;
- Obtaining patent protection for the Company's compounds and other intellectual property; and,
- An ability to attract and retain skilled and experienced personnel and to maintain relationships with third party clinical research organizations.

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

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

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

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

The Company

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

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 3015402 Ontario Inc. operating as DDP Therapeutics ("DDP"), in which the Company had,

up to the date of the acquisition, a 10% ownership interest. DDP was formed in early 2005 to develop a library of molecules initially targeted at small cell lung cancer that were discovered by the Company using its drug discovery technology.

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

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

Our Business

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

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

The Company is currently taking an oncology molecule, COTI-2, forward through various preclinical tests to a Phase 1 clinical trial in gynecological cancers as commercial validation of both the compound's viability as a clinical drug candidate and the discovery capabilities of the underlying CHEMSAS® technology used to discover it. Accordingly, COTI's near term focus is on preparing the IND clinical trial submission based on the positive preclinical test results achieved by COTI-2 against a number of cancer indications. Current testing initiatives and planning would enable an IND filing in the first quarter of 2015. 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.

Operational Progress & Outlook

Overview Q2-FYE'15

a) Operations

In Q2-FYE'15, the Company continued to receive test results highlighting the positive impact of COTI-2 on p53 mutations that occur in more than 50% of all cancers.

In this regard, the Company announced in September 2014 results from a study that clearly demonstrated the selective and potent anti-cancer activity of oral COTI-2. In these experiments, human tumors with three specific common mutations of p53 and one mutation without the p53 gene present were allowed to grow in mice. Treatment with oral COTI-2 at both 30 mg/kg and 75 mg/kg produced dramatic growth inhibition in tumors with the p53 mutations but had no effect on the tumors without the p53 gene.

The draft 28-day two-species toxicity studies report received in July 2014 was reviewed in depth and discussed with the contract research organization ("CRO") that conducted the study during the quarter leading to the release of the final report in October. The results of this study were announced in a press release in late October 2014. The very positive results highlighted under "Key Operational Objectives Update" below confirmed the Company's expectations, based upon the cumulative evidence of previous test data, of the very low toxic effects of COTI-2.

As discussed in the FYE'14 MD&A, while COTI-2 results continue to be positive, potential licensees are seeking confirmatory human data as an event to trigger licensing discussions. In responding to this feedback, the Company announced in September 2014 the signing of a letter of intent to conduct the Phase 1 human trial with the MD Anderson Cancer Center in Houston, TX ("MD Anderson"). The Company began working with MD Anderson in Q1-FYE'15 to develop the testing protocol and investigator's brochure that are part of the submission to the United States Food and Drug Administration ("FDA") in support of the Company's investigational new drug ("IND") application. Filing of the IND application is expected to occur in January 2015 with the first patients enrolled in the study in the first quarter of 2015, subject to receiving approval from the FDA. The typical time to approval for an IND is in the range of one to three months. Given the FDA review conducted of COTI-2's scientific data package in granting the Orphan Drug Designation, the Company believes the IND approval would be earlier rather than later in this range.

During the quarter, the Company also sought to develop its strategy of broadening the number of oncology indications for which COTI-2 would be a valuable therapy. Based upon relationships developed from the 16th International p53 Workshop presentation made in Stockholm in June 2014, the Company was pleased to announce in October that senior researchers in squamous cell head and neck cancer ("HNSCC") at MD Anderson had entered into a material transfer agreement for testing COTI-2. Their preliminary findings with single agent COTI-2 showed tremendous promise and were consistent with

studies conducted by researchers at MD Anderson in ovarian cancer. Additional *in vitro* and *in vivo* studies in HNSCC tumor models are ongoing. Other indications and expressions of interest are being pursued for acute myelogenous leukemia, pancreatic cancer, and lung cancer with other major research institutions.

b) Financing

The Company has a number of important objectives planned for the balance of fiscal 2015 to drive the business to revenue. However, in order to realize its objectives, the Company will require additional funding. Funding is also required to repay the $400,000 debenture due in February 2015. Funding achievements in Q2-FYE'15 and year to date are highlighted in the "Liquidity and Capital Resources" section and include approximately $2.1m in financing closed subsequent to the quarter-end.

Additional financing will be required to fund operations through fiscal 2016. These funding sources may include:

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

Key Operational Objectives Update

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

1. COTI-2

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

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

- Achieving a No Observed Adverse Effect Level ("NOAEL") status, determined in both the rodent and non-rodent species using an oral dosing regimen that was well tolerated both at and above levels that have been effective in recent xenograft experiments, allows for the

selection of a starting oral dose in the Phase 1 clinical trial within the dosing parameters established from the toxicity studies;

- The range of safe and effective doses for COTI-2 was identified as being quite wide for a cancer drug and is consistent with COTI-2 having a good safety profile as identified in other preclinical xenografts; and,
- The studies were conducted with a five day on, and two day off dosing schedule repeated for a total of 28 days in both species. Achieving an NOAEL for this dosing regimen provides a treatment regime of Monday to Friday dosing with weekends off, which is generally well tolerated and easy to administer from a patient's perspective.

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

i. IND submission writing

Update: The September 2014 target date was not met due to delays from CRO activities in the completion of the manufacturing, testing, and data gathering for the final oral formulation to be used in the Phase 1 trial; however, the writing is progressing with a January 2015 filing target.

ii. Phase 1 test protocol preparation

Update: The Company and the investigative team from MD Anderson have been working on the test protocol since early June 2014 and the protocol is expected to be finalized in January 2015 once the final manufacturing study data is made available in December 2014.

iii. Investigator's brochure preparation

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

iv. Pre-filing FDA meeting

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

v. Electronic submission of IND

Update: Currently targeted for January 2015.

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

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

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

Update: The Company now plans to file the IND in January 2015 with the Phase 1 study expected to commence before April 30, 2015, subject to approval of the IND and thus remains on target. As highlighted in "Financing Activities Q2-FYE'15", the Company has signed a letter of intent ("LOI") to conduct a Phase 1 clinical trial with MD Anderson. The final budget and signing of the agreements are expected by the end of February 2015 once the study protocol and investigator brochure are completed for the IND filing and the final budget can be set. As a result of this agreement, the Company will not bear the full cost of the trial but will receive funding in kind from MD Anderson. The Company currently expects the all-in cost to the Company to conduct the study will be approximately $1.25 million USD consisting of approximately $825k USD with MD Anderson and the balance with other contracted parties.

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

Update: The Company continues to share the test outcomes and progress with interested parties. The most recent test results shared were the two-species toxicity studies following receipt of the final report in October. Licensing discussions will continue as the IND is completed and the Phase 1 trial approaches.

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

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

Update: Western University - At April 30, 2014, Western was waiting for approval on a grant application to provide additional financing for completing the proof of concept studies. This funding was received and the proof of concept studies are ongoing. COTI and Western also moved ahead jointly with a patent application and COTI filed a provisional patent in August 2014. Western and the Company also met with a major international partner to discuss funding and co-development based upon the preliminary animal results and their interest in the SOX-9 target.

Delmar Chemicals Inc. ("DCI") - The project was initiated based upon inhibiting angiogenesis targets identified to be of potential interest in the Open Innovation Drug Discovery ("OIDD") program of Eli Lilly and Company. Two of the three compounds that passed the initial OIDD computational screens will be transferred to the OIDD program by April 30, 2015. OIDD will then conduct its in-house

assay-testing program that is expected to take 4-6 months. The third compound remains with DCI in synthesis.

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

Update: There has been limited progress on this objective as the Company continues to wait on further direction from the Pharma as to final test data and conclusions as to what further refinements and optimization might be required to move the final candidates for the Pharma to evaluate into the second phase of the project.

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

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

3. <u>AML Program</u>

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

Update: There has been no progress on this initiative due to resource constraints with plans to start this study in late Q3-FYE'15.

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

Update: There has been no progress on this initiative due to resource constraints with plans to complete this in Q4-FYE'15.

4. <u>New revenue initiatives</u>

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

Update: A draft high-level business plan was completed and the Company continues to refine a detailed marketing and business implementation plan.

b) To launch the CHEMFirm product service.

Update: There has been no progress at the end of Q2-FYE'14 pending further business planning efforts noted in 4(a) above.

New Technologies

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

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

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

Financial Review of Operations

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

Summary financial results for the comparative fiscal second quarter, three and six month periods ended October 31, 2014 and 2013 is set out in Table 2.

Table 2 – Summary Financial Results – Second Quarter Comparisons

	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)

Revenue

There was no collaboration and research service revenue recognized or earned in the quarter ended October 31, 2014 (Q2-FYE'15) or in the quarter ended October 31, 2013 (Q2-FYE'14) nor for the comparative six month fiscal periods.

Operating Expenses

Operating expenses increased from $599,029 for Q2-FYE'14 to $924,236 for Q2-FYE'15, an increase of $325,207. On a year to date basis, operating expenses increased by $776,726 from $1,098,508 in YTD-FYE'14 to $1,875,234 in YTD-FYE'15. This increase occurred across all major functional expense areas with some offset by an increase in investment tax credits earned.

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

Table 3 provides a breakdown of R&D expenses by major expense types for the comparable three and six month fiscal periods ended October 31. The increase of $231,052 in R&D expenses quarter over quarter and $332,749 year over year is primarily attributable to increases in In vitro/in vivo testing, Synthesis, and Miscellaneous R&D expenses.

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

	Q2-FYE'15	Q2-FYE'14	Change
In vivo/In vitro testing	$ 46,994	$ 19,544	$ 27,450
Synthesis	106,854	5,453	101,401
Miscellaneous R&D expenses	104,774	4,227	100,547
	258,622	29,224	229,398
Salaries and benefits	92,174	86,694	5,480
Professional fees	(6,288)	4,876	(11,164)
Other	10,594	6,903	3,691
	355,102	127,697	227,405
Government assistance	-	(3,647)	3,647
Total	$ 355,102	$ 124,050	$ 231,052

	YTD - FYE'15	YTD - FYE'14	Change
In vivo/In vitro testing	$ 127,985	$ 45,230	$ 82,755
Synthesis	131,777	$ 16,991	114,786
Miscellaneous R&D expenses	106,342	4,527	101,815
	366,104	66,748	299,356
Salaries and benefits	177,930	174,705	3,225
Professional fees	22,686	4,921	17,765
Other	23,222	15,341	7,881
	589,942	261,715	328,227
Government assistance	-	(4,522)	4,522
Total	$ 589,942	$ 257,193	$ 332,749

In vivo/in vitro testing increased $27,450 quarter over quarter and $82,755 year over year primarily associated with the final toxicity testing of COTI-2. The toxicity testing results, particularly the 28-day two-species testing outcomes, are the important final toxicity test results necessary for filing the IND submission for COTI-2.

Synthesis increased quarter over quarter primarily because of additional work on the final oral formulation for COTI-2 in scaling up to good manufacturing practices quality for human trials. Also included in this increase was $33,100 in contracting costs for synthesis work on a MRSA project, which commenced late in July 2014.

The increase in Miscellaneous R&D expenses quarter over quarter included CRO consultants' costs in support of COTI-2 testing and the drafting of the investigational new drug application for COTI-2 to commence Phase 1 human trials. This IND related expense increase was consistent with the comparative year to date results.

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

Table 4 provides a breakdown of G&A expenses by major expense types for the comparable three and six month fiscal periods ended October 31. The increase in G&A expenses quarter over quarter and year over year is primarily attributable to new initiatives, the timing of incurring expenses compared to the prior comparable period and the greater availability of funding during the current fiscal year compared to the same period in the prior year. This was reflected in the significant increases in Professional fees, Salaries and benefits, Corporate governance, and Promotion and travel.

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

	Q2-FYE'15	Q2-FYE'14	Change
Amortization	$ 133,882	$ 133,481	$ 401
Professional fees	124,713	94,774	29,939
Salaries and benefits	85,955	75,740	10,215
Corporate governance	78,787	26,491	52,296
Insurance	14,423	13,821	602
Promotion and travel	44,257	19,762	24,495
Rent	10,200	9,346	854
Other	20,353	35,956	(15,603)
	512,570	409,371	103,199
Share-based compensation	28,860	36,190	(7,330)
Total	$ 541,430	$ 445,561	$ 95,869

	YTD - FYE'15	YTD - FYE'14	Change
Amortization	$ 266,998	$ 264,593	$ 2,405
Professional fees	510,972	180,655	330,317
Salaries and benefits	184,257	158,715	25,542
Corporate governance	100,505	34,542	65,963
Insurance	28,845	27,642	1,203
Promotion and travel	61,148	22,633	38,515
Rent	20,115	18,692	1,423
Other	33,576	53,276	(19,700)
	1,206,416	760,748	445,668
Share-based compensation	53,788	56,130	(2,342)
Total	$ 1,260,204	$ 816,878	$ 443,326

Professional fees increased primarily related to initiatives that did not exist in the comparable prior periods. New initiatives in the quarter included information technology upgrades, financial modelling support and strategic planning sessions with the Board of Directors. Prior quarter initiatives included strategic advice on raising awareness of the Company in the United States ("U.S."); strategic advice in pursuing financing in the U.S.; and support related to obtaining a listing on the OTCQB trading platform

to provide improved market access for U.S. investors. These consulting fees included a non-cash expense related to U.S. financial market advisory services valued at $265,200 using a Black-Scholes valuation model that related to payment for these services by issuing 1,500,000 common share purchase warrants of the Company exercisable at $0.19 USD for a period of five years from the date of issuance.

Salaries and benefits increased in the quarter and year to date due to an increase in the allocation of the Chief Executive Officer's time to non-R&D activities.

The increase in Corporate governance expense related to the timing of the Annual General Meeting ("AGM"), which was held in October 2014, rather than December 2013 in the prior year, and to specific expenses related to the 2014 AGM for implementing various shareholder and governance protections such as a Shareholder Rights Plan.

Promotion and travel expense, related primarily to flights and accommodation costs, increased during Q2-FYE'14 due to attendance and participation as a presenting company at several industry conferences including Rodman & Renshaw (New York), BIOPharm America (Boston), Harvard Cancer Advance (Boston) BIO Investor Forum (San Francisco), and BIO Europe (Frankfurt).

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

Table 5 provides a breakdown of S&M expenses by major expense types for the comparable three and six month fiscal periods ended October 31. The increased availability of funding enabled the Company to ramp up its business development activities in the quarter and year to date as reflected in the line item increases.

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

	Q2-FYE'15	Q2-FYE'14	Change
Salaries and benefits	$ -	$ -	$ -
Marketing and travel	39,310	26,921	12,389
Professional fees	27,500	16,000	11,500
Other	470	103	367
Total	$ 67,280	$ 43,024	$ 24,256

	YTD - FYE'15	YTD - FYE'14	Change
Salaries and benefits	$ -	$ (279)	$ 279
Marketing and travel	65,455	29,311	36,144
Professional fees	44,750	16,000	28,750
Other	480	104	376
Total	$ 110,685	$ 45,136	$ 65,549

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

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

d) Investment Tax Credits ("ITC")

The increase in ITC income of $25,970 quarter over quarter and $64,898 year to date related to an increase in eligible scientific research and experimental development ("SR&ED") expenditures and to a higher tax credit rate for the provincial jurisdiction in which the expenses were incurred. SR&ED expenditures increased $160,023 from $281,725 for the six months ending Q2-FYE'14 to $441,748 for the six months ending Q2-FYE'15.

e) Interest Expense

The increase in interest expense of $20,415 quarter over quarter and $38,777 year to date relates primarily to the 10% interest expense on a $400,000 debenture issued in February 2014 that did not exist in Q2-FYE'14 and the related accretion of the financing expense associated with its issuance.

Financial Results Quarterly Summary

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

Table 6: Summary of Quarterly Financial Results

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(970,796)	(946,204)	-	-	(1,917,000)
Loss per common share	$ (0.01)	$ (0.01)	$ -	$ -	$ (0.02)

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

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

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

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

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

The overall trend line for the operating expenses in fiscal 2013 was relatively consistent for the first three quarters with a range of $707,000 to $775,000. Operating expenses declined significantly in Q4-FYE'13 compared to the earlier fiscal 2013 quarters to $448,000 as management moved to conserve cash. Individually, the major expense areas also reflected this trend with both G&A and R&D expense declining significantly in Q4-FYE'13 and responsible for much of the Q4-FYE'13 decline.

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

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 693,846	$ 516,502	$ -	$ -	$ 1,210,348
Research and product development	234,841	355,102	-	-	589,943
Investment tax credit	(46,021)	(39,576)	-	-	(85,597)
Share-based compensation	24,928	28,860	-	-	53,788
Total of expense categories	907,594	860,888	-	-	1,768,482
Total expense for the quarter	$ 1,018,907	$ 987,533	$ -	$ -	2,006,440
Expense categories as a % of total expense	89.1%	87.2%	0.0%	0.0%	88.1%

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

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

(1) The presentation noted in this table does not conform to the functional presentation in the Company's interim and annual financial statements. Share-based compensation included in General and administration, 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.

Liquidity and Capital Resources

Table 8 summarizes the changes in capital resources for the six month periods ending Q2-FYE'15 and Q2-FYE'14. At the end of Q2-FYE'15, the Company had cash and cash equivalents of $837,884 compared to $958,401 in capital resources at the end of Q2-FYE'14 reflecting a 12.6% decrease in the Company's cash position between the comparable periods of $120,517. This decrease in cash between the periods reflects the substantial increase in cash used in operating activities for the six months ending Q2-FYE'15 compared to Q2-FYE'14 of $838,727. This increased operating cash usage was funded by over $1,686,000 in net financing year to date with approximately $668,000 occurring during the second quarter.

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

	Q2-FYE'15	Q2-FYE'14
Used in:		
Operating activities	$ (1,591,660)	$ (752,933)
Investing activities	(62,898)	(91,356)
Decrease in capital resources before financing activities	(1,654,558)	(844,289)
Net cash proceeds from issuance of common shares and warrants	1,686,572	1,646,518
Issuance cost of warrant amendments	(8,565)	(6,966)
Interest paid	(22,993)	(1,142)
Decrease increase in capital resources	456	794,121
Less: unrealized foreign exchange loss on capital resources	7,153	(5,067)
Capital resources - beginning of period	830,275	169,347
Capital resources - end of period	$ 837,884	$ 958,401

(1) The presentation used in this table does not conform to the presentation in the Company's interim and annual financial statements as set out in the Statements of Changes in Cash Flows (SCF). Details presented in those SCF have been condensed in this presentation to highlight the significance of financing efforts to the ongoing operation of the Company.

Financing Activities During Q2-FYE'15

The Company obtained $668,372 in net financing during the quarter, $468,098 from a private placement that closed in mid-October 2014 and $200,274 from warrant exercises. In addition, the Company signed a clinical letter of intent for a Phase 1 gynecological cancer trial at a cost substantially less than the $3.5-$4.0 USD of initial estimates thus reducing its cash needs to complete the Phase 1 study. The details related to these sources of funds are set out below.

a) Phase 1 Clinical Trial Letter of Intent with MD Anderson Cancer Centre

On September 8, 2014, the Company announced the signing of LOI with The University of Texas MD Anderson Cancer Center, to conduct the Phase 1 clinical development of the Company's lead cancer drug candidate, COTI-2, in gynecological cancers.

Under the terms of the Phase 1 agreement, the Company and MD Anderson will work together to design and conduct a first in humans study with oral COTI-2 in up to 40 women with advanced gynecological cancers who have failed conventional therapy. For the purposes of the study, the term "gynecological cancers" refers to cancers of the ovary, endometrium, and cervix. Management research and advice from its consultants determined that a typical Phase 1 trial of the scale and complexity planned would have a cost range of approximately $3.5 to $4.0 million USD. The parties have negotiated a cost structure for the clinical trial that is very favorable to the Company. COTI's contribution is estimated at approximately $1.25 million USD with the remainder of the cost funded by MD Anderson as in kind monitoring, testing, and pharmacy capabilities. The final definitive agreements will be signed once the final testing protocol and investigator's brochure are completed as part of the IND filing with the FDA. The parties anticipate that patient recruitment for the Phase 1 clinical trial will begin in the first quarter of 2015.

b) Private Placement

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. However, the expiry date 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 warrants, the closing price of the Company's common shares listed on the TSX Venture Exchange equals or exceeds three times the exercise price of the warrants issued in the Offering.

c) Warrant Exercises

The Company realized gross proceeds of approximately $200,796 related to the exercise of 625,000 common share purchase warrants and 66,482 compensation warrants during the quarter. The exercise price of the common share purchase warrants was $0.30 per common share and the exercise price of the compensation warrants was $0.20 per common share. The cost to issue these common shares was $522.

Working Capital

The Company's working capital at the end of Q2-FYE'15 was $240,511 compared to $29,141 at FYE'14. This increase since FYE'14 reflects the positive impact of the private placement financing completed in Q1-FYE'15. This level of working capital highlights the need for additional financing to fund operations, and efforts in this regard are discussed under Financing Activities Subsequent to Q2-FYE'15.

Current assets continue to remain liquid and there are no restrictions on the use of these assets. Cash equivalents are invested in instruments with maturities of three months or less. Current assets increased $80,777 in Q2-FYE'15 to $1,140,479 from $1,059,702 at FYE'14 primarily due to an increase in cash and investment tax credits earned on its eligible R&D expenditures. Current liabilities decreased $130,593 at Q2-FYE'15 from FYE'14 primarily due to a reduction in R&D liabilities since FYE'14.

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'15 are limited to the current fiscal year as summarized in Table 9.

Table 9: Contractual Obligations

Obligation	Total	2015	2016
Insurance finance contract	$ 6,107	$ 6,107	$ -
Research and development contracts	212,032	212,032	-
Total contractual obligations	$ 218,139	$ 218,139	$ -

Going Concern Risk

The Company has formulated goals for the remainder of fiscal 2015 to advance its lead oncology compound, COTI-2, into a Phase 1 clinical trial and thereby enhance its attractiveness to potential licensees and to move other revenue initiatives and development projects forward as resources permit. For COTI, the material uncertainties related to working capital and cash resources discussed above and a

commitment to repay a $400,000 debenture in February 2015, raise significant concerns about the ability of the Company to accomplish its goals. These conditions highlight that the Company has not yet established commercial operating revenues to fund its operations and accordingly operating cash flows continue to be negative.

In order to accomplish its goals and alleviate the going concern risk, the Company is taking steps to obtain additional cash resources. This includes actively pursuing sources of financing, including but not limited to, raising capital in the public market and securing government grants, and seeking potential customers, partners, and collaborators as a means of furthering molecule development and generating cash from revenue streams. As evidence of these efforts, the Company closed two tranches of a private placement that commenced in Q2-FYE'15, as described above under "Financing Activities Subsequent to Q2-FYE'15", that raised gross proceeds of approximately $2,111,232. 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, and is working diligently to obtain the required resources, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future periods.

Financing Activities Subsequent to Q2-FYE'15

a) Private Placement

Subsequent to the end of Q2-FYE'15, on November 6 and 25, 2014, respectively, the Company completed the second and third tranches of the non-brokered private placement that had commenced in October 2014. Under the second and third tranches, the Company issued 8,165,062 units consisting of one common share and one warrant at USD $0.23 per unit for gross Canadian dollar proceeds of approximately $2,111,232. In aggregate, the Company paid finders' fees in connection with these 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. However, the expiry date 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 warrants, the closing price of the Company's common shares listed on the TSX Venture Exchange equals or exceeds three times the exercise price of the warrants issued in the Offering.

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 Exercises

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.

Off-Balance Sheet Arrangements

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

Foreign Exchange Exposure

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

During Q2-FYE'15, the Company's foreign exchange exposure was primarily related to the USD with some exposure to CHF. The amount of this exposure is not material to the Company's operations with a foreign exchange loss of $3,226 recorded in the quarter compared to a loss of $864 in Q2-FYE'14 (see Table 2).

Related Party Transactions

Material transactions with related parties that occurred during Q2-FYE'14 were in the ordinary course of business and related to the following:

a) Share options exercisable at $0.50 per common share to acquire 481,483 common shares granted to directors in prior periods expired in September 2014;

b) A director participated in the private placement that closed on October 17, 2014, on the same terms and conditions as other subscribers to the offering. The investment of USD $27,485 for 119,500 units at USD $0.23 per unit represented 5.9% of this private placement;

c) The directors were granted 1,191,099 share options at the Board of Directors ("Board") meeting following the Company's Annual General Meeting on October 21, 2014, as compensation for their services for the upcoming year. The options are exercisable at a price of $0.29, have a life of five years and vest quarterly on an equal basis at the end of each quarter during the first year; and,

d) Officers of the Company were also granted 450,000 share options at the October 22, 2014, Board meeting with the same terms and conditions as those options granted to the directors.

Outstanding Share Information

Outstanding share information at the close of business on December 16, 2014 is set out in Table 11.

Table 11: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	113,945,150	
Diluted [(1)]	189,632,650	
Weighted average outstanding [(2)]	103,907,191	
Common share warrants		
$0.26 warrants	2,003,498	Dec 20/14
$0.20 warrants	1,250,000	Feb 4/15
$0.26 warrants	9,141,465	Feb 15-27/15
$0.20 compensation warrants	187,032	Feb 27/15
$0.26 warrants	1,066,667	Mar 1/15
$0.20 compensation warrants	53,333	Mar 1/15
$0.37 warrants	1,446,481	Mar 31/15
$0.55 warrants	129,019	Mar 31/15
$0.30 warrants	10,625,000	Apr 23 - May 26/15
$0.26 warrants	2,412,397	Jul 31/15
$0.26 warrants	3,569,458	Jan 29/16
$0.30 warrants	12,500,000	Mar 15/16
$0.28 warrants	3,356,250	Apr 29/16
$0.22 compensation warrants	242,000	Apr 29/16
$0.28 warrants	5,595,135	Jun 2/16
$0.22 compensation warrants	219,110	Jun 2/16
$0.26 warrants	769,230	Feb 4/19
$0.19 USD compensation warrants	3,000,000	Apr 11 - Jun 6/19
$0.34 USD warrants	10,177,760	Oct 16 - Nov 5/19
$0.26 USD compensation warrants	578,116	Oct 16 - Nov 24/19
	68,321,951	
Common share stock options		
$0.01 - $0.25	4,450,089	Apr 30/15 - Dec 4/18
$0.26 - $0.47	2,915,460	Feb 11/15 - Oct 21/19
	7,365,549	

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

[(2)] Weighted average shares outstanding calculated from May 1, 2014 to Dec 16, 2014.

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 are reviewed in the Company's 2014 Annual Information Form.

The four risk categories having the greatest effect on the Company during Q2-FYE'15 and for the balance of the year are listed and discussed as follows:

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

Uncertainties Related to Research

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

Each compound will require additional research and development, scale-up, formulation, and extensive clinical testing in humans. Development of compounds may require further investigation into the mechanism of action ("MOA") where this is not fully understood as many compounds have multiple MOAs. The discovery of unexpected toxicities, lack of sufficient efficacy, poor physiochemical properties, unacceptable ADME properties, drug metabolism and pharmacokinetics, inability to increase scale of manufacture, market attractiveness, regulatory hurdles, as well as other factors, may make COTI's therapeutic targets, or product candidates unattractive or unsuitable for human use and COTI may abandon its commitment to that program, target, or product candidate. COTI believes its CHEMSAS® process serves to mitigate or reduce these risks compared to traditional historic approaches by virtue of profiling across many variables in identifying compounds with high probability of successfully becoming drugs, however, its predictions remain a probability only and failure can occur. These uncertainties and the attendant delays were experienced by COTI's lead compound, COTI-2 during

the quarter. Despite these, COTI-2 continues to progress through preclinical testing and perform as predicted and appears poised to move on into a Phase 1 clinical trial in 2015. Success in this clinical trial will provide further support to the scientific validation of the CHEMSAS® technology platform.

Lack of Product Revenues

The revenue cycle for drug development is a long one; typically 5 to 10 years depending upon the point along development that monetization of the asset occurs. Since its inception to October 31, 2014, COTI has worked to develop relationships with prospective customers, and strived to obtain licensing and collaboration agreements for its own products and therapeutic targets of interest to partners. The continued development of COTI-2 and the nurturing of relationships with licensees concerning the strong scientific test results for the compound are critical to achieving the revenue realization stage. Accordingly, operating losses are expected to be incurred until revenues from upfront licensing, milestone and royalty payments are sufficient to fund continuing operations. COTI is unable to predict with any certainty when it will become profitable, or the extent of any future losses or profits.

Securing Adequate Licensing Agreements

The Company's ability to commercialize its products successfully will depend on its ability to negotiate licensing agreements with biotech or pharma companies for its compounds. This will first require meeting the scientific due diligence requirements of prospective customers. While continued positive test results for COTI-2 during fiscal 2014 and Q2-FYE'15 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date. Licensing discussions during fiscal 2014 continued to find interest in the compound but the novel nature of the compound and class has caused licensees to seek further proof of the mechanism of action through test results in humans.

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

Access to Capital

The Company continually monitors its cash resources to support its R&D programs in an effort to move its compounds, particularly COTI-2, as rapidly as possible through development. These efforts were highlighted under Liquidity and Capital Resources where the Company noted the financial challenges

that can hinder project development and the Company's efforts to generate needed capital. Historically, the Company has focused on the Canadian marketplace, however, the U.S. capital markets are seen as more receptive to life science company investment. Accordingly, the Company has increased its access to funding in this market by obtaining a listing on the OTCQB and by engaging a U.S. investment bank for financial advisory services. There is no certainty that these efforts will prove successful in increasing capital available from more life-science knowledgeable investors. In seeking to raise equity capital, COTI will have to price such equity offerings ("Offering") in relation to the market's current perception of value.

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

Changes in Accounting Policies

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

a) Adoption of new accounting pronouncements:

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

i. IAS 32 – Financial Statements: Presentation:

In December 2011, the IASB amended IAS 32 related to offsetting financial assets and financial liabilities. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if at the time of the transactions that right is not contingent on a future event; and, enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The adoption of this amended standard had no impact on the financial statements during Q1-FYE'15 based upon the Company's current operations.

ii. IAS 36 – Impairment of Assets:

In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). These amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The amendments affect certain disclosure requirements only and the adoption of this amended standard had no impact on the financial statements during Q1-FYE'15 based upon the Company's current operations.

b) Recent accounting pronouncements not yet adopted:

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

i. IFRS 9 – Financial Instruments:

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

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

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

ii. IFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

The Company intends to adopt these amendments in its financial statements for the annual period beginning on May 1, 2015. The Company does not expect the amendments to have a material impact on the financial statements.