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

For the fiscal year ended April 30, 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" or the "Corporation") for the year ended April 30, 2014, and has been prepared with all information available up to and including July 24, 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.

This analysis should be read in conjunction with the Company's Annual Financial Statements and notes thereto for the year ended April 30, 2014. These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

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

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

Forward-looking Statements

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

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

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Our Business	• Intends to license its targeted molecules • Plans for further testing of COTI-2 leading to an investigational new drug ("IND") filing and readiness for a Phase 1 clinical trial • Plans for future application of the CHEMSAS® technology on a collaboration basis • The Company's commercialization strategy for collaborations
Liquidity and Capital Resources	• Plans to seek additional cash resources • Expectations for continued investment tax credit recoveries • Plans to raise capital in the U.S.
Foreign Exchange Exposure	• Expectation of continued low exposure to currency fluctuations through limited use of 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 International 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 technologies 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 incorrect, 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 3015402 Ontario Inc. operating as DDP Therapeutics ("DDP"), in which the Company had, up to the date

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

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

Our Business

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

The Company is developing focused portfolios of novel, proprietary and optimized small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. COTI has concentrated on developing drug candidates for the treatment of various cancers, human immunodeficiency virus ("HIV"), Alzheimer's disease and multiple sclerosis. Cancer types specifically targeted include small cell lung, acute myelogenous leukemia ("AML"), ovarian, endometrial, pancreatic, brain, breast, and colon.

The Company is currently taking an oncology molecule, COTI-2, forward through various preclinical tests to Phase 1 clinical trials as commercial validation of both the compound's viability as a clinical drug candidate and the discovery capabilities of the underlying CHEMSAS® technology used to discover it. Accordingly, COTI is focused on preparing for an IND clinical trial submission based on the positive preclinical test results achieved for COTI-2 to date against a number of cancer indications. Current testing initiatives and planning would enable an IND filing in the autumn of 2014. Upon acceptance of an IND filing, COTI-2 would be available for licensing or co-development as a Phase 1 ready compound.

The Company also seeks to leverage CHEMSAS® to identify targeted lead candidates of commercial interest to pharmaceutical, biotechnology, research and academic organizations on a collaborative basis. The Company's commercialization strategy for collaborations involves an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results and a royalty on sales. This service offering provides prospective customers with an efficient and cost effective approach for generating targeted discovery stage compounds while enhancing value to COTI and its shareholders from the underlying CHEMSAS® technology. This collaboration approach resulted in three engagements being announced in fiscal 2013; one with a Canadian university, one with a private chemical synthesis company and one with a multinational pharmaceutical company.

Overall Performance and Selected Annual Information

During the fiscal year ended April 30, 2014 ("FYE 2014"), the Company made substantial progress on the following three core initiatives focused on future revenue generation:

1. Development and commercialization of COTI-2:

   The Company continued preclinical development of its lead oncology compound, engaged in ongoing marketing efforts toward a license agreement for this compound, and commenced preparation for a first-in-human clinical trial.

2. Research and development ("R&D") collaborations:

   The three collaborations entered into during the year ended April 30, 2013 ("FYE 2013") continued to advance toward future revenue milestones while the Company continued the pursuit of additional R&D partnering deals using COTI's underlying Artificial Intelligence platform, CHEMSAS®.

3. Other CHEMSAS® applications:

   The Company continued the development of additional potential revenue streams using the core functionality of CHEMSAS® and the Company's scientific and technical knowledge built up in developing the CHEMSAS® platform.

In support of its marketing efforts for COTI-2, the Company engaged a U.S. based licensing consultant in late October 2012 to support and drive the Company's efforts toward a licensing agreement. The consultant's broad outreach program that commenced in the last quarter of FYE 2013 continued in FYE 2014 with further dialogue with interested parties up to the completion of their consulting agreement in late October 2013. The key takeaway from their efforts was that Phase 1 human data was necessary to move the compound to a license with interested parties despite a strong scientific preclinical data package and a novel, potentially first-in-class compound in an area of significant unmet medical need.

To further support the COTI-2 licensing efforts, the Company continued to promote its CHEMSAS® technology in a variety of ways including podium presentations at a number of scientific conferences that raised the profile of COTI-2 in both the scientific and business development spheres. These conferences also served as venues to garner co-development project leads with pharmaceutical and biotech companies as well as scientists in academia. As highlighted in Table 2 item 4, a potential clinical partner was identified for COTI-2 in February 2014. The proposed investment of $5.0m USD for a 50% interest in the asset was important in recognizing that at the preclinical level of development, a floor value for this preclinical asset was $10m USD as of early February 2014.

Scientific developments of importance for COTI-2 were announced throughout FYE 2014 and are summarized in Table 2 below.

Table 2: Key Scientific Announcements for COTI-2

	Press Release Date	Key Scientific Advancement Regarding COTI-2
1	Jun 11/13	Research conducted at the world-renowned MD Anderson Cancer Centre confirmed COTI-2 is most active in mutant p53 tumors and the effect in many specific p53 mutations is striking. The effect is augmented by the presence of mutations in the AKT signaling pathway. The preclinical data suggests clinical trials are warranted. Proving that COTI-2 is highly active in people with p53 mutant tumors would represent a breakthrough therapy for many cancer patients as > 50% of all cancers contain a p53 mutation.
2	Nov 13/13	Announced the granting of the fifth U.S. patent for COTI-2 covering the synergistic effects in various combination therapies against other cancer mutations such as RAS, EGFR and AKT.
3	Feb 5/14	Announced that the final two-species toxicity studies were moving ahead upon the closing of the financing to support them.
4	Feb 26/14	Announced a potential partner for the clinical development of COTI-2 through a joint venture ("JV") with Portage Biotech ("PB"). PB was to invest $5.0m USD in a JV to fund a mutually agreed upon clinical development plan for COTI-2.
5	Apr 4/14	Announced the submission of an Orphan Drug Application to the U.S. Food and Drug Administration ("FDA") for COTI-2 for the treatment of ovarian cancer.

Table 3 below sets out selected financial information for the Company for FYE 2014 and the two preceding fiscal years.

Table 3: Selected Financial Information

	FYE 2014	FYE 2013	FYE 2012
Revenue	$ -	$ 30,588	$ -
Loss before finance income (loss)	2,979,706	2,632,893	2,609,139
Finance income (loss)	(16,473)	7,089	17,988
Loss and comprehensive loss	2,996,179	2,625,804	2,591,151
Basic and diluted loss per common share	$ 0.03	$ 0.03	$ 0.04
Dividends declared and paid	-	-	-
Total assets	$ 2,527,703	$ 2,256,654	$ 4,148,976
Long term liabilities	-	-	-

No revenue was recognized in FYE 2014 while revenue of $30,588 was recognized in FYE 2013 related to a collaboration engagement and to a profiling pilot project completed for a potential collaboration engagement.

The "Loss before finance income (loss)" and the "Loss and comprehensive loss" have fluctuated primarily due to year over year changes in R&D expenses and general and administration expenses ("G&A"). These two trends are highlighted in Table 4.

Table 4: R&D and G&A Expenses

Description	FYE 2014	FYE 2013	FYE 2012
R&D expenses	$ 1,034,416	$ 791,417	$ 718,849
G&A expenses	$ 1,958,185	$ 1,718,404	$ 1,780,024

Spending on R&D was managed in FYE 2014 and in prior years, based upon the timing of experimental testing and the Company's available cash resources. The increase in FYE 2014 compared to FYE 2013 relates primarily to testing for COTI-2 as in FYE 2014 the compound was advanced through final toxicity studies and related testing to enable the preparation of an investigational new drug application to the FDA. The FYE 2014 G&A increase compared to FYE 2013 relates to fluctuations in professional fees and share-based compensation as set out in Table 5.

Table 5: Professional Fees and Share-based Compensation

Description	FYE 2014	FYE 2013	FYE 2012
Professional fees	$ 694,440	$ 330,217	$ 444,939
Share-based compensation	$ 163,672	$ 265,409	$ 221,984

Finance income was generated from two sources during the three year period: first, interest earned on cash, cash equivalents and short-term investments, and second, foreign exchange ("FX"). The interest income earned has been modest over the three years. The Company has limited FX exposure as it seeks to utilize quality Canadian contract research organizations ("CROs") to qualify for refundable Canadian investment tax credits. The finance loss in FYE 2014 primarily reflects a loss from an increase in interest expense associated with a debenture issued in February 2014 and from FX holdings in United States dollar balances at FYE 2014.

The decrease in total assets from FYE 2012 to FYE 2014 is attributable to lower levels of cash, cash equivalents, short-term investments and the carrying value of the Company's molecules that are impacted by annual amortization, offset by an increase in the Company's growing patent portfolio. The trend for these balances is set out in Table 6.

Table 6: Key Components of Total Assets

Asset type	FYE 2014	FYE 2013	FYE 2012
Cash and cash equivalents	$ 830,275	$ 169,347	$ 901,130
Short-term investment	-	-	817,541
Molecules	679,583	1,108,793	1,538,003
Patents	$ 683,414	$ 652,188	$ 556,718

Financial Review of Full Year Operations

A summary of the Company's financial results for the fiscal years ending April 30, 2014 and 2013 setting out the comparative changes between the years appears in Table 7 below. This financial information should be read in conjunction with the Company's 2014 Annual Financial Statements, which can be found on SEDAR at www.sedar.com.

Table 7: Comparative Financial Results for the years ended April 30

	2014	2013	Change
Collaboration and research service revenue	$ -	$ 30,588	$ (30,588)
Expenses (income):			
Research and product development	1,034,416	791,417	(242,999)
Sales and marketing	105,217	281,593	176,376
General and administration	1,958,185	1,718,404	(239,781)
Investment tax credits	(118,112)	(127,933)	(9,821)
	2,979,706	2,663,481	(316,225)
Loss before finance income (expense)	(2,979,706)	(2,632,893)	(346,813)
Finance income (expense):			
Interest income (expense), net	(14,601)	5,970	(20,571)
Foreign exchange gain (loss)	(1,872)	1,119	(2,991)
	(16,473)	7,089	(23,562)
Loss and comprehensive loss	$(2,996,179)	$(2,625,804)	$ (370,375)

Revenue

There was no revenue generated in FYE 2014. This compares to collaboration and research service fee revenue of $30,588 recognized in FYE 2013 related primarily to a collaboration agreement with Western University wherein the Company received an upfront payment of $25,000 as a fee for the identification of lead candidates as discussed more fully under Collaborations and Co-development Projects below.

Operating Expenses

Operating expenses increased $316,225 year over year. An increase in R&D expenses by $242,999 and an increase in G&A expense by $239,781 accounted for the majority of this increase, offset by a decrease of $176,376 in sales and marketing ("S&M") expense.

a) Research and Product Development Expense

R&D expenses increased year over year primarily due to increases in in vivo/in vitro testing, an increase in synthesis and miscellaneous R&D expenses, higher salaries and benefits and a decrease in government assistance, partially offset by lower professional fees. Table 8 provides a breakdown of R&D costs by major expense types for FYE 2014 and FYE 2013.

Table 8: R&D Expense – Comparative Years Ended April 30

	FYE 2014	FYE 2013	Change
In vivo/In vitro testing	$ 543,739	$ 376,267	$ 167,472
Synthesis and miscellaneous R&D expenses	80,456	38,144	42,312
	624,195	414,411	209,784
Salaries and benefits	367,772	357,239	10,533
Professional fees	44,598	58,747	(14,149)
Other	29,204	28,882	322
	1,065,769	859,279	206,490
Government assistance	(31,353)	(67,862)	36,509
Total	$ 1,034,416	$ 791,417	$ 242,999

In vivo/in vitro testing for FYE 2014 increased $167,472 year over year primarily due to testing associated with COTI-2. Testing related to COTI-2 was $515,513 or 94.8% of this category (FYE 2013 – $342,300 or 91.0%). The majority of this expense was for the final toxicity testing of COTI-2 that began in September 2013 and was nearing completion at FYE 2014. The toxicity testing results, particularly the 28-day two-species testing outcomes, are the important final test results necessary for filing the IND submission for COTI-2.

Synthesis and miscellaneous R&D expenses increased $42,312 year over year primarily because of additional work on the oral formulation for COTI-2 to improve bioavailability for the 28-day two-species toxicity testing.

Professional fees during FYE 2014 of $44,598 related to scientific consultants' costs of $30,770 (FYE 2013 – $36,039) in support of COTI-2 testing and $13,828 related to filing an Orphan Drug application for COTI-2 with the FDA. The costs in FYE 2013 also included $22,708 related to the preparation of a training manual for the Company's proprietary CHEMSAS® process.

The Company recognized a decrease of $36,509 in government assistance year over year from its AML research and development grant with the National Research Council of Canada Industrial Research Assistance Program ("IRAP"). The reimbursement received in FYE 2014 of $31,353 related to $22,171 in R&D contractor costs (FYE 2013 – $62,423), $7,950 in internal labour costs (FYE 2013 – $5,439), and $1,232 from a Summer Works Program student employment grant. Final draw down of the IRAP funding grant was completed at the end of March 2014.

b) General and Administration Expense

Table 9 provides a breakdown of G&A expense by major expense type for FYE 2014 and FYE 2013. The increase of $239,781 year over year is primarily attributable to an increase in professional fees, amortization, and promotion and travel, partially offset by a decrease in salaries and benefits and share-based compensation.

Table 9: G&A Expense – Comparative Years Ended April 30

	FYE 2014	FYE 2013	Change
Amortization	$ 534,811	$ 520,527	$ 14,284
Professional fees	694,440	330,217	364,223
Salaries and benefits	314,366	363,416	(49,050)
Corporate governance	96,293	91,580	4,713
Insurance	55,520	56,755	(1,235)
Rent	37,384	37,384	-
Promotion and travel	41,764	30,648	11,116
Other	19,935	22,468	(2,533)
	1,794,513	1,452,995	341,518
Share-based compensation	163,672	265,409	(101,737)
Total	$ 1,958,185	$ 1,718,404	$ 239,781

Amortization increased $14,284 year over year due to an increase in the number of patents granted and accordingly the higher carrying value of the patents being amortized between the comparable periods.

Professional fees more than doubled in FYE 2014 compared to FYE 2013 with an increase of $364,223. Table 10 provides a comparison of the major fee categories for the two years.

Table 10: G&A Professional Fees

	FYE 2014	FYE 2013	Change
Audit and accounting	$ 77,610	$ 64,250	$ 13,360
Executive consulting	89,584	180,734	(91,150)
Legal	65,428	22,664	42,764
Investor relations	117,600	51,800	65,800
U.S. OTC listing	9,940	-	9,940
U.S. strategic advisory	320,326	-	320,326
Other	13,952	10,769	3,183
Total	$ 694,440	$ 330,217	$ 364,223

Strategic financial advisory services to assist the Company in entering the U.S. market for financing was the primary area responsible for the overall increase in this category with an increase of $320,326. This consisted of $32,916 in cash payments and the issuance of 1,500,000 common share purchase warrants under the terms of a strategic financing advisory agreement with a U.S. investment bank signed in February 2014. A fair market value of $220,500 was recognized for these warrants determined using a

Black-Scholes valuation model. In addition to the investment bank expenses, the Company incurred costs of $66,910 with a U.S. consultant to assist in the identification and engagement of the U.S. investment bank. This consultant also provided introductions to prospective investment professionals and investors as the Company commenced increasing its presence in various U.S. markets (New York, Boston, Atlanta, San Francisco) as a prelude to a future financing in the U.S.

The increase in investor relations of $65,800 is primarily related to the engagement of a fee-based market maker, Venture Liquidity Providers Inc. as announced in April 2013. The additional audit and consulting costs primarily related to additional audit fees for FYE 2013 and accounting consulting work on a few proposed transactions considered by the Company during FYE 2014. The increased legal fees also related to the proposed transactions and other agreements that were completed during the year. These increased costs were partially offset by a decrease in executive consulting costs of $91,150.

The decrease in salaries and benefits of $49,050 primarily reflects a reduction in staffing effective December 1, 2012, that was partially offset by an increase in the allocation of the Chief Executive Officer's ("CEO") time to non-R&D activities.

The 36.3% increase in promotion and travel of $11,116 was primarily a result of travel expenses of the CEO and the Chairman for business development efforts related to COTI-2 and financing efforts on behalf of the Company.

Share-based compensation decreased $101,737 year over year primarily due to a decrease in the number of share options ("Options") granted. There were 1,139,178 fewer Options granted in FYE 2014 compared to FYE 2013 as set out in Table 11. A reduction in the number of Directors from eight to five at the 2013 AGM was a major factor in this decrease as fewer Options were awarded for annual retainer fees. Expiries and forfeitures were approximately the same between the years with 537,496 expiries and forfeitures in FYE 2014 compared to 552,236 in FYE 2013.

Table 11: Share Options Outstanding Continuity – Comparative Years Ended April 30

	FYE 2014	FYE 2013	Change
Opening Balance	5,584,437	3,576,328	2,008,109
Granted	1,421,167	2,560,345	(1,139,178)
Foreited	-	(75,000)	75,000
Expired	(537,496)	(477,236)	(60,260)
Ending balance	6,468,108	5,584,437	883,671

c) Sales and Marketing Expense

Table 12 provides a breakdown of S&M expense by major expense type for FYE 2014 and FYE 2013. The decrease of $176,376 year over year reflects a decrease in all expense categories.

Table 12: S&M Expense – Comparative Years Ended April 30

	FYE 2014	FYE 2013	Change
Salaries and benefits	$ -	$ 72,579	$ (72,579)
Marketing and travel	49,540	91,199	(41,659)
Professional fees	55,250	115,732	(60,482)
Other	427	2,083	(1,656)
Total	$ 105,217	$ 281,593	$ (176,376)

The decrease in salaries and benefits year over year reflects a reduction in personnel effective March 2013 that had only a one-month impact on FYE 2013 and a full year effect on FYE 2014.

The $41,659 decrease in marketing and travel expense relates to lower costs associated with the decrease in personnel as noted above, a decrease in travel specifically for marketing COTI-2 by consultants and a greater allocation of the CEO's travel costs to G&A. FYE 2013 also included an expense for the development of three marketing videos at a cost of $13,500 that did not reoccur in FYE 2014.

The professional fees decrease from the comparative period of $60,482 reflects a decrease in spending on consulting fees in support of COTI-2 licensing which were $27,500 in FYE 2014 (FYE 2013 – $59,732) and a decrease in spending of $27,750 in support of other business development activities in FYE 2014 (FYE 2013 – $56,000).

d) Investment Tax Credits

Investment tax credit ("ITC") income declined in FYE 2014 by $9,821 compared to FYE 2013 despite an increase in eligible R&D expenditures. Eligible expenses in FYE 2014 were $842,530 compared to $648,254 in FYE 2013. The decrease relates to the following:

- the impact of two changes in the federal scientific research and development ("SRED") tax credit program announced in the March 2012 budget, which reduced the base for calculating ITCs in the comparable years: first, the overhead proxy rate allowed under the federal program decreased from 65% to 60% effective January 1, 2013 and then to 55% effective January 1, 2014; and second, qualifying expenditures to arm's length contractors were limited to 80% of the contract payments for expenditures incurred beginning January 1, 2013; and,
- the provincial tax program jurisdiction in which the expenditures were incurred.

e) Finance Income (Expense)

The Company earned $5,549 in interest income on its cash and cash equivalent balances in FYE 2014 compared to $7,223 in FYE 2013. The decrease resulted from lower cash balances held in FYE 2014 compared to FYE 2013. In FYE 2014, this interest income was primarily offset by an increase in interest expense related to a debenture issued in February 2014. Interest expense recorded for the debenture was $17,071 consisting of $9,315 paid in cash and $7,756 in accretion interest.

Analysis of Financial Results Fourth Quarter Fiscal 2014

Summary financial information for the comparative fourth quarter periods ended April 30, 2014 and 2013 (Q4-FYE'14 and Q4-FYE'13) is set out in Table 13.

Table 13: Summary Financial Information - Fourth Quarter Comparison

	Q4-FYE'14	Q4-FYE'13	Change
Collaboration and research service revenue:	$ -	$ 5,588	(5,588)
Expenses (income):			
Research and product development	$ 593,812	$ 91,551	502,261
Sales and marketing	20,399	35,873	(15,474)
General and administration	661,190	349,068	312,122
Investment tax credits	(69,561)	(27,066)	(42,495)
	1,205,840	449,426	756,414
Loss before finance income (expense)	(1,205,840)	(443,838)	(762,002)
Finance income (expense):			
Interest income, net	$ (17,543)	$ 864	(18,407)
Foreign exchange gain (loss)	$ (3,138)	(605)	(2,533)
	(20,681)	259	(20,940)
Loss and comprehensive loss	$(1,226,521)	$ (443,579)	(782,942)
Weighted average shares outstanding	93,454,868	78,058,472	
Loss per common share	$ 0.01	$ 0.01	

Revenues

There was no operating revenue for Q4-FYE'14 while the operating revenue for Q4-FYE'13 was $5,588. The Q4-FYE'13 revenue consisted of a service fee associated with a profiling project as the first step to a possible collaboration. The Company continued to pursue a licensing agreement for COTI-2 and potential collaboration revenues during Q4-FYE'13 without achieving agreements from these efforts.

Operating Expenses

Operating expenses increased from $449,426 in Q4-FYE'13 to $1,205,840 in Q4-FYE'14, an increase of $756,414. Increases in two of the three major expense categories accounted for this quarterly change; R&D expense increased $502,261 and G&A expense increased by $312,122. These increases were partially offset by decreases in S&M expense and an increase in ITCs.

a) Research and Product Development Expense

Quarterly R&D expenses increased by $502,261 year over year primarily due to an increase in in vivo/in vitro testing, an increase in synthesis cost and miscellaneous R&D expenses, an increase in professional fees and a decrease in government assistance. Table 14 provides a breakdown of R&D expenses by major expense type for the comparable quarterly periods Q4-FYE'14 and Q4-FYE'13 respectively.

Table 14: R&D Expense – Fourth Quarter Comparison

	Q4-FYE'14	Q4-FYE'13	Change
In vivo/In vitro testing	$ 431,347	$ 16,849	$ 414,498
Synthesis and miscellaneous R&D expenses	44,859	28,505	16,354
	476,206	45,354	430,852
Labour including benefits	91,800	89,208	2,592
Professional fees	30,347	7,090	23,257
Other	6,389	3,956	2,433
	604,742	145,608	459,134
Government assistance	(10,930)	(54,057)	43,127
Total	$ 593,812	$ 91,551	$ 502,261

- The increase of $414,498 in in vivo/in vitro testing for Q4-FYE'14 compared to Q4-FYE'13 relates to COTI-2 entering the final 28-day two-species toxicity testing early in the quarter. The lower amount of expense in Q4-FYE'13 reflects management's decision to reduce testing in this quarter to conserve cash.
- The Company recognized a decrease of $43,127 in government assistance in Q4-FYE'14 compared to Q4-FYE'13 primarily related to the timing of eligible expenses. The decrease also reflected that the available funding ended on March 31, 2014, as the IRAP grant was fully drawn down at that date.
- The professional fees increase of $23,257 related primarily to consulting costs of $13,683 in support of the COTI-2 IND preparation and $13,829 for the filing of an Orphan Drug application for COTI-2.
- Synthesis and miscellaneous R&D expenses increased by $16,354 related to formulation work on COTI-2 in support of the toxicity testing and the preparation of the IND filing.

b) General and Administration Expense

Table 15 provides a breakdown of G&A expenses by major expense type for the comparable quarterly periods Q4-FYE'14 and Q4-FYE'13 respectively. The major change year over year occurred in professional fees with an increase of $306,043 compared to Q4-FYE'13. This increase was due primarily to strategic financial advisory services to assist the Company in entering the U.S. market for financing. This consisted of $32,916 in cash payments and the issuance of 1,500,000 common share purchase warrants under the terms of a strategic financing advisory agreement with a U.S. investment bank signed in February 2014. A fair market value of $220,500 was recognized for these warrants determined

using a Black-Scholes valuation model. In addition to the investment bank expenses, the Company incurred costs of $23,176 with a U.S. financing consultant to assist in the identification and engagement of the U.S. investment bank and incurred legal costs of $24,451 and accounting fees of $5,000 related to various proposed transactions such as the joint venture proposal with Portage Biotech Inc. announced in February 2014.

Table 15: G&A Expense – Fourth Quarter Comparison

	Q4-FYE'14	Q4-FYE'13	Change
Professional fees	$ 351,927	$ 45,884	$ 306,043
Amortization	135,190	129,025	6,165
Salaries and benefits	69,728	77,578	(7,850)
Corporate governance	18,799	24,830	(6,031)
Insurance	13,953	13,239	714
Promotion and travel	12,957	4,306	8,651
Rent	9,346	9,346	-
Other	3,278	3,850	(572)
	615,178	308,058	307,120
Share-based compensation	46,012	41,010	5,002
Total	$ 661,190	$ 349,068	$ 312,122

Other G&A expense changes included:

- an increase in amortization that reflected an increase in the number of patents granted and accordingly the carrying cost being amortized compared to Q4-FYE'13;
- a decrease in salaries and benefits attributed to a higher allocation of the CEO's time to G&A in Q4-FYE'13 than in Q4-FYE'14;
- an decrease in corporate governance related to the timing of legal work associated with the preparation of the Company's management information circular for the 2014 annual general and special meeting of shareholders ("AGM") compared to such costs for the 2013 AGM;
- an increase in promotion and travel related to increased travel by the CEO and Chairman for financing related efforts during Q4-FYE'14; and,
- an increase in share-based compensation related to share option grants made in December 2013 that vested quarterly and had a greater valuation using the Black-Scholes valuation method than similar grants made in the prior year based upon the assumptions applicable to each grant.

c) Sales and Marketing Expense

Table 16 provides a breakdown of S&M expense by major expense types for the comparable quarterly periods Q4-FYE'14 and Q4-FYE'13 respectively.

Table 16: S&M Expense – Fourth Quarter Comparison

	Q4-FYE'14	Q4-FYE'13	Change
Salaries and benefits	$ -	$ 13,504	$ (13,504)
Marketing and travel	2,925	22,125	(19,200)
Professional fees	17,250	-	17,250
Other	224	244	(20)
Total	$ 20,399	$ 35,873	$ (15,474)

S&M expenses decreased $15,474 in Q4-FYE'14 compared Q4-FYE'13.

The professional fees increase of $17,250 related to consulting costs of $13,500 for work done on the CHEMFirm business plan and $3,750 in consulting fees for meeting planning and organizational support for the CEO at several conferences.

The decrease of $13,504 in salaries and benefits resulted from a staff reduction in Q4-FYE'13 for which a replacement had not yet been made during Q4-FYE'14.

Marketing and travel expenses decreased $19,200 in Q4-FYE'14 compared to Q4-FYE'13 reflecting a greater allocation in Q4-FYE'14 of the travel costs of the CEO and other parties covering marketing and business development activities to G&A as their normal functional department. In addition, there was expense of $13,500 incurred in Q4-FYE'13 for the creation of three short videos used in various marketing activities that did not reoccur in Q4-FYE'14.

d) Investment Tax Credits

ITC income increased $42,495 compared to Q4-FYE'13 related to SRED tax credits earned on the increased eligible expenditures in the current quarter compared to Q4-FYE'13. As noted under the Financial Review of Full Year Operations, a reduction in the overhead proxy rate affected the amount of eligible expenditures and hence the ITC credits that would have been earned if using the same rate as was applicable in Q4-FYE'13.

Financial Results Two Year Quarterly Summary

Table 17 summarizes the financial results of the Company by quarter for the past two fiscal years.

Table 17: Summary of Quarterly Financial Results

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 [(1)]	$ (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	(722,770)	(762,669)	(696,785)	(443,580)	(2,625,804)
Loss per common share [(1)]	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.03)

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

The majority of the variation by quarter across the two years and quarterly year over year is explained by two expense categories, Research and product development and General and administration, as set out in Tables 18 and 19.

The trend line for these two operating expenses in FYE 2014 shows a significant increase that was relatively flat for the first two quarters, ramped up in the third quarter, and significantly increased in the fourth quarter. This trend reflects the impact of financings closed in Q1-FYE'14 and Q2-FYE'14 that allowed the Company to increase its R&D efforts in advancing COTI-2 toward an IND ready status and supported the Company's efforts at increasing its U.S. presence for licensing and financing purposes. The trend in the ITCs across the FYE 2014 quarters is consistent with the increase in R&D expenses in the FYE 2014 quarters. The increase in share-based compensation in Q3-FYE'14 reflects the share option grants in December 2013 and does not correlate to the changes in the other expense category changes during FYE 2014.

Table 18: Selected Quarterly Expense Categories FYE 2014 [(1)]

FYE 2014	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
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%

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

In FYE 2013, the trend line in operating expenses was relatively consistent for the first three quarters with a range of $707,000 to $775,000. Operating expenses declined significantly in Q4-FYE'13 compared to the previous FYE 2013 quarters with a drop to $477,000. This reflected management's decision to conserve cash until further financing could be obtained. Individually, the major expense areas also reflected this trend with both G&A and R&D expense declining significantly in Q4-FYE'13 compared to the previous FYE 2013 quarters and were thus responsible for much of the Q4-FYE'13 decline.

Table 19: Selected Quarterly Expense Categories FYE 2013 [1]

FYE 2013	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 397,091	$ 398,046	$ 349,800	$ 308,058	$ 1,452,995
Research and product development	266,995	239,587	193,284	91,551	791,417
Investment tax credit	(35,733)	(32,920)	(32,214)	(27,066)	(127,933)
Share-based compensation	42,385	98,173	83,841	41,010	265,409
Total of expense categories	670,738	702,886	594,711	413,553	2,381,888
Total expense for the quarter	$ 732,684	$ 775,072	$ 707,551	$ 477,098	$ 2,692,405
Expense categories as a % of total expense	91.5%	90.7%	84.1%	86.7%	88.5%

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

The variability in the comparable year over year quarters is primarily due to a higher level of spending in R&D activities and higher share-based compensation for the first two quarters in FYE 2013 compared to FYE 2014. These expenses declined in the last two quarters of FYE 2013 while R&D expense and G&A expense significantly increased in these quarters of FYE 2014.

Liquidity and Capital Resources

The Company's capital resources include cash and cash equivalents. Table 20 summarizes the changes in cash flows for FYE 2014 and FYE 2013. At FYE 2014, the Company had cash and cash equivalents of $830,275 compared to $169,347 in cash and cash equivalents at FYE 2013 reflecting an increase of $660,928.

Table 20: Summary of Changes in Cash flows [1]

	FYE 2014	FYE 2013
Used in:		
Operating activities	$ (1,816,015)	$ (1,978,022)
Investing activities	(177,927)	691,349
Decrease in cash before financing activities	(1,993,942)	(1,286,673)
Proceeds from issuance of common shares and warrants	2,391,883	504,736
Costs of issuing common shares and warrants	(184,589)	(63,621)
Proceeds of debenture	400,000	-
Costs of issuing debenture	(35,915)	-
Costs of warrant ammendments	(9,054)	(10,051)
Investment tax credit recoveries	120,509	123,976
Interest paid	(12,330)	(1,189)
Increase (decrease) in cash and cash equivalents	676,562	(732,822)
Less: unrealized foreign exchange loss on capital resources	(15,634)	1,039
Cash and cash equivalents - beginning of period	169,347	901,130
Cash and cash equivalents - end of period	$ 830,275	$ 169,347

(1) This summary of changes in cashflows is an annotated version of the Company's cash flows as reported in its Annual Financial Statements and this information should be read in conjunction with the Company's 2014 Annual Financial Statements, which can be found on SEDAR at www.sedar.com.

The difference in the cash balance year over year reflects the use of cash in operating activities through the year that fostered an ongoing requirement by management to obtain additional financing. Unlike FYE 2013, the Company closed a private placement for net cash proceeds of $476,383 on the last day of FYE 2014 that replenished cash resources and had a favourable effect on the comparable balances between the years.

Financing Activities

1. During FYE 2014

As highlighted, the Company entered FYE 2014 with $169,347 in cash and recognized that additional funding would be necessary to complete its operational plans to develop COTI-2 to a licensing agreement and support additional follow on programs. In this regard, the Company completed a number of financings during the year that generated gross proceeds of approximately $2.8 million as outlined in Table 21 below.

Table 21: Summary of Fiscal 2014 Equity and Debt Financings

Date	Approximate Gross Proceeds	Warrants	Warrant Exercise Price	Warrant Expiry Term (months)
May 31, 2013	$ 299,000	2,412,397	$ 0.26	18
June 21, 2013	240,000	2,003,498	0.26	18
August 16, 2013	500,000	4,166,666	0.26	18
August 28, 2013	597,000	4,974,799	0.26	18
August 30, 2013	128,000	1,066,667	0.26	18
February 5, 2014	100,000	769,230	0.26	60
February 5, 2014	400,000	1,250,000	0.20	12
April 30, 2014	537,000	3,356,250	$ 0.26	24
Total	$2,801,000	18,749,507		

a) May and June 2013 Private Placement

The Company completed a non-brokered private placement in two tranches, closing on May 31 and June 21, 2013, respectively. Under the private placement, the Company issued 4,415,895 units consisting of one common share and one common share purchase warrant at a price of $0.12 per unit for gross proceeds of approximately $529,907. Each common share purchase warrant is exercisable for one common share at a price of $0.26 for a period of 18 months following the closing date of each tranche. Cash costs of the private placement were $34,507 consisting of $23,821 in professional and regulatory fees, and $10,686 in finders' fees. The Company also issued 88,213 compensation warrants valued at $7,011 using a Black-Scholes valuation model. Each compensation warrant is exercisable into one common share of the Company for a period of 18 months following the closing date of each tranche at an exercise price of $0.20 per share. The expiry dates for the common share purchase warrants and the compensation warrants from each tranche are November 30 and December 20, 2014, respectively.

b) August 2013 Private Placement

The Company completed a non-brokered private placement in three tranches, closing on August 16, 28, and 30, 2013, respectively. Under the private placement, the Company issued 10,208,132 units consisting of one common share and one common share purchase warrant at a price of $0.12 per unit for gross proceeds of approximately $1,224,976. Each common share purchase warrant is exercisable for one common share at a price of $0.26 per share for a period of 18 months from the closing date of each tranche. Cash costs of the private placement were $73,858 consisting of $41,802 in professional and regulatory fees, and $32,056 in finders' fees. The Company also issued 267,130 compensation warrants valued at $45,413 using a Black-Scholes valuation model. Each compensation warrant is exercisable into one common share of the Corporation for a period of 18 months following the closing date of each tranche at an exercise price of $0.20 per share. The expiry dates for the common share purchase warrants and the compensation warrants from each tranche are February 15, February 27, and March 1, 2015, respectively.

c) February 2014 Private Placement

On February 5, 2014, the Company completed a non-brokered private placement of 769,230 units consisting of one common share and one common share purchase warrant at a price of $0.13 per unit for gross proceeds of approximately $100,000. Each common share purchase warrant is exercisable for one common share at an exercise price of $0.26 per share for five years to the expiry date of February 4, 2019. Cash costs of the private placement were $9,475 related primarily to professional fees.

d) February 2014 Debenture

On February 5, 2014, the Company issued a non-convertible debenture ("Debenture") in the amount of $400,000. The Debenture 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. In addition to the interest cost of the Debenture, the Company issued 1,250,000 common share purchase warrants ("Debenture Warrants") with an exercise price of $0.20 and a term of one year with vesting occurring immediately upon issuance of the Debenture. 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. The Company incurred total cash financing costs of $35,915 to issue the Debenture.

e) April 2014 Private Placement

On April 30, 2014, the Company completed a non-brokered private placement of 3,356,250 units consisting of one common share and one common share purchase warrant at $0.16 per unit for gross proceeds of $537,000. 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. Cash costs of the private placement were $60,617 consisting of $21,898 in professional and regulatory fees and $38,720 in

finders' fees. The Company also issued 242,000 compensation warrants valued at $17,182 and exercisable into one common share at a price of $0.22 for 24 months following the closing date. The expiry date for the common share purchase warrants and compensation warrants is April 29, 2016.

2. Subsequent to FYE 2014

The financing on April 30, 2014 strengthened the Company's cash position at the end of Q4-FYE'14 and improved its liquidity but these cash resources are insufficient to enable the Company to move forward in a significant way with the further development of COTI-2 and other Company initiatives through fiscal 2015. Accordingly, the Company continued to seek funding for its operations.

a) June 2014 Private Placement

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 as described above. 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 approximately $895,222. The Company paid finders' fees in connection with the offering of $35,058 in cash and issued 219,110 compensation warrants. Each common share purchase warrant is exercisable for one common share at an exercise price of $0.28 and each compensation warrant is exercisable for one common share at an exercise price of $0.22 for a period of 24 months from the date of issue.

b) OTCQB Listing

During fiscal 2014, the Company investigated and analyzed opportunities to improve its visibility and exposure to U.S investors. The basis for this was recognition that the Company had reached an important inflection point in its growth requiring access to the larger and more life science-focused, U.S. market in marketing its products and financing its operations. In this regard, the Company announced on June 16, 2014 that its common shares commenced trading in the U.S. on the OTCQB venture stage marketplace under the symbol "COTQF".

The OTCQB listing status is an opportunity for foreign issuers, such as COTI, to obtain a U.S. listing presence for trading purposes without becoming a U.S. Securities and Exchange Commission registrant and incurring the significant cost of obtaining and maintaining this status. It provides the same level of regulatory scrutiny and transparency for the U.S. investor as the TSXV does for Canadian investors since the OTC Markets Group relies on and monitors that the foreign issuer remains in good standing with its foreign stock exchange. This initial U.S. listing is seen by management as beneficial to existing shareholders by creating an opportunity for U.S. based investors to obtain information about the Company and invest through a trading platform familiar to them, thus broadening the base of investors and improving liquidity.

c) U.S. Financing

The Company announced in February 2014 the engagement of a U.S. investment bank to provide strategic financial advisory services leading to a private placement financing in the U.S. with a major

focus for the funding being to support the further development of COTI-2 up to and through a Phase 1 clinical trial. Successful completion of this trial is expected to position the asset for a licensing deal with a major pharmaceutical company. This financing is expected to be completed during the first half of fiscal 2015.

d) Option and Warrant Exercises

Subsequent to the year-end, the Company realized gross proceeds of approximately $107,500 related to the exercise of 385,192 share options, 35,800 common share purchase warrants and 178,292 compensation warrants.

3. Warrant Amendments

The Company amended the term to expiry for 25,575,500 warrants during FYE 2014. A summary of these amendments appears in Table 22 below. The rationale for these extensions included the following:

a) a potential source of future financing without incurring significant additional legal and related costs associated with a new private placement or similar funding;

b) recognition of the support of investors who had participated in successive private placement rounds; and,

c) providing a degree of fairness to all investors based upon having extended the expiry date of warrants in earlier private placements.

Table 22: Warrant Amendment Summary

Amendment Date	Warrant Exercise Price	Quantity	Original Expiry	New Expiry
September 11, 2013	$0.30	3,125,000	September 23/13	April 23/15
		6,250,000	October 9/13	May 9/15
		1,875,000	October 26/13	May 26/15
		11,500,000		
October 29, 2013	$0.30	12,500,000	October 31/13	May 31/14
March 7, 2014	$0.37	1,446,480	March 14/14	March 31/15
	$0.55	129,019	March 14/14	March 31/15
		1,575,500		
Total		25,575,500		

4. Joint Venture with Portage Biotech Inc.

In February 2014, the Company announced the signing of a non-binding letter of intent ("LOI") to form a joint venture with Portage Biotech Inc. ("Portage"), to fund and direct the Phase 1 development of the Company's clinical oncology candidate, COTI-2. Portage is a British Virgin Island incorporated public company, listed and traded on the Canadian Securities Exchange (PTB.U), and on NASDAQ OTC (PTGEF). The joint venture formation and investment would bring substantial technical and industry expertise to

the development of COTI-2 and enable the Company to move the compound into clinical trials and provide the human data validation of primary interest to many potential licensing partners.

Under the terms of the LOI, the Company and Portage agreed to form a joint venture company ("JV Co") wherein the Company would grant an exclusive limited license for COTI-2 to JV Co for the development of COTI-2 from the point it commences the final pre-clinical 28-day two-species toxicity studies, through IND preparation and filing, a Phase 1 clinical trial and all related or ensuing development as determined to be appropriate by JV Co. Portage will invest $5.0 million USD in JV Co and these funds will be used to fund the mutually agreed upon development plan for COTI-2. JV Co will be co-owned 50/50 by COTI and Portage.

Portage had not completed their due diligence at FYE 2014 as the Company was asked to conduct additional tests related to specific cell lines and outcomes. This testing is expected to be completed at the end of July 2014. Upon successful completion of the remaining due diligence, Portage and COTI may enter into negotiations for a definitive plan and agreement of joint venture (the "JV Agreement") and an exclusive limited license agreement in respect of COTI-2.

5. Non-dilutive Phase 1 Clinical Trial Funding

In addition to its efforts to fund a Phase 1 clinical trial ("Phase 1") for COTI-2 through partners such as Portage, the Company has also been seeking clinical trial partners who may participate in the Phase 1 on a non-dilutive capital basis. These efforts include clinical institutions that may participate in the trial by providing services in kind or through research funding available to them to support research of interest to the institution.

6. Investment Tax Credits

ITCs as a source of cash were lower in FYE 2014 at $120,509 compared to $123,976 in FYE 2013. The decrease related primarily to Federal government SRED program changes announced in the March 2012 budget. ITCs in FYE 2015 are anticipated to be consistent with FYE 2014 based upon the continued use of eligible CROs in FYE 2015 and recognizing that Phase 1 clinical trial costs carried out with a non-Canadian institution will not be eligible expenditures for the Canadian SRED program credits.

Investing Activities

Investing activities in FYE 2014 consisted of the purchase of $3,954 in computer equipment (FYE 2013 - $5,111), $122,152 in computer software (FYE 2013 - $19,650) and $51,821 in patent costs (FYE 2013 - $101,431). Investment in such items will continue into the future as the Company relies heavily on computing technology to run its CHEMSAS® process, and investing in patents for the molecules identified from the process ensures that the value of this intellectual property is protected for generating future licensing revenue. At FYE 2014, the Company had 13 patents granted and 14 patents pending in various jurisdictions with a carrying value of $683,144 (FYE 2013 - $652,188). A summary related to these patents appears in Table 23.

Table 23: Summary of Patent Investments

Patents	Therapeutic Target	April 30, 2014	April 30, 2013
Granted:			
COTI-2	Oncology	$ 97,511	$ 45,986
COTI-219	Oncology	8,655	9,206
COTI-4	Oncology	23,401	-
Three compounds	Acute myelogenous leukemia	140,435	153,492
		270,002	208,684
Pending:			
COTI-2	Oncology	239,359	264,155
COTI-4	Oncology	86,410	-
Various other compounds	Oncology and HIV	87,643	179,350
		413,412	443,505
Total patents		$ 683,414	$ 652,189

The Company conducts periodic reviews of its tangible and intangible assets for impairment indicators, including its most recent analysis at FYE 2014 to ensure the carrying value of these assets (equipment, molecules, patents, and computer software) are not impaired. Management determined there were no impairment indicators at FYE 2014.

Working Capital

The Company's working capital at FYE 2014 was $29,141 compared to $53,255 at FYE 2013. Cash equivalents are invested in instruments with maturities of three months or less. Current assets increased to $1,059,702 at FYE 2014 from $431,769 at FYE 2013 for an increase of $627,933 due to an increase in cash and cash equivalents. Current liabilities increased $652,047 to $1,030,561 at FYE 2014 from $378,514 at FYE 2013 due to the issuance of a Debenture in February 2014 that is due to be repaid in February 2015, and an increase in accounts payable related primarily to the COTI-2 R&D testing activities ongoing at FYE 2014. As highlighted under Financing above, the Company closed a private placement in June 2014 that dramatically improved the Company's working capital from that at FYE 2014.

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 also 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 has contractual obligations existing at April 30, 2014 that are due for payment in fiscal 2015 (FYE 2015) as summarized in Table 24.

Table 24: Contractual Obligations

Obligation	Total	FYE 2015
Debenture	$ 430,685	$ 430,685
Insurance finance contract	24,039	24,039
Research and development contracts	397,663	397,663
Total contractual obligations	$ 852,387	$ 852,387

Going Concern Risk

The Company has formulated goals for the upcoming year to advance the testing for COTI-2 in enhancing its attractiveness to potential licensees and to move 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 doubts about the ability of the Company to accomplish its goals. These conditions highlight that the Company has not yet established commercial operating revenues to fund its operations and accordingly operating cash flows continue to be negative.

In order to accomplish its goals and alleviate the going concern risk, the Company is taking steps to obtain additional cash resources. This includes actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams, and pursuing sources of financing, including but not limited to, raising capital in the public market and securing government grants. As evidence of these efforts, the Company closed private placements subsequent to April 30, 2014, as described under Financing above that raised gross proceeds of approximately $895,222. Further, the Company has discretion with many of its expenditure activities and plans to manage these activities in FYE 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.

Off-Balance Sheet Arrangements

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

Foreign Exchange Exposure

The Company has historically entered contracts denominated in United States dollars (“USD”), Euros (“EUR”), and U.K. pounds sterling (“GBP”). As a result, the Company may be exposed to risk from fluctuations in exchange rates between the CAD, USD, EUR, and GBP. 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 the year, the Company’s foreign exchange exposure was almost exclusively related to the USD.

The amount of this exposure is not considered material to the Company’s operations with total USD payments for FYE 2014 of $255,010 compared to $175,541 in FYE 2013. During FYE 2014, the Company recorded a foreign exchange loss of $(1,872) compared to a gain of $1,119 in FYE 2013.

Related Party Transactions

Related party transactions of a material amount that occurred in the current and prior year are set out under selected headings below.

a) Share-based compensation

An amendment was made on December 5, 2013, at the Company's AGM related to options granted to directors who were not standing for re-election at the AGM. The amendment revised the expiry date of options held by these members of the Board of Directors ("Board") to be the earlier of (i) April 30, 2015 or (ii) the original expiry date of such options. This amendment related to 2,204,800 share options held by four former directors with option prices ranging from $0.15 to $0.90 that would have otherwise expired 90 days following their end of service on the Board under the terms of the Company's Share Option Plan ("SOP").

Also on December 5, 2013, the Board amended, under the authority of the SOP, the vesting of 100,000 options scheduled to vest equally on March 1 and June 1, 2014 to immediate vesting on behalf of one of its directors who did not stand for election at the AGM. These options have an exercise price of $0.24.

Table 25 sets out the amount of share-based compensation for the option grant transactions with related parties occurring during FYE 2013 and FYE 2014 based upon the total fair market value of each option grant at the date of the transaction using a Black-Scholes valuation model and the model input assumptions applicable at the time of the grant.

Table 25: Share-based Compensation for Related Parties

Name	Relationship	Description of Transaction	Amount	
			FYE 2013	FYE 2014
Mr. Tom Wellner	Director	July 11, 2012, granted 17,838 Options [(1)]	$ 3,211	$ -
Mr. Gene Kelly	Officer	September 10, 2012, granted 200,000 Options [(2)]	13,385	-
Various	Directors	September 25, 2012, granted 1,592,506 Options [(3)]	170,000	
Dr. Brent Norton	Director	September 10, 2012, granted 200,000 Options [(4)]	17,800	-
Dr. Wayne Danter	Officer	September 25, 2012, granted 250,000 Options [(5)]	19,851	-
Various	Directors	June 9, 2013, 226,628 Options expired	-	-
Dr. Brent Norton	Director	October 15, 2013, granted 200,000 Options [(4)]	-	25,750
Various	Directors	December 5, 2013, granted 821,168 Options [(6)]	-	113,732
Mr. Gene Kelly	Officer	December 5, 2013, granted 150,000 Options [(7)]	-	19,275
Various	Directors	February 16, 2014, 294,556 Options expired	$ -	$ -

[(1)] On July 11, 2012, 17,838 Options were granted to a new director with an exercise price of $0.28. The Options have a five-year life and vested on September 27, 2012.

(2) On September 10, 2012, 200,000 Options were granted to an officer under his Employment Agreement. The Options have a five-year life, an exercise price of $0.14, and vested immediately.

(3) On September 25, 2012, 1,592,506 Options were granted to the Board as retainer compensation for directorship responsibilities. The Options have a five-year life and an exercise price of $0.16 with 25% vesting at the end of each quarter from the date of grant.

(4) Effective June 1, 2011, the Company entered into an executive management consulting services agreement with one of its directors ("Consultant"). A renewal of the agreement occurred effective June 1, 2012 ("2013 Agreement"). Under the 2013 Agreement, the Consultant was granted 200,000 Options on September 10, 2012, which vested immediately. These Options had a five-year life and an exercise price of $0.14.

The 2013 Agreement expired on May 31, 2013, and was renewed effective June 1, 2013 ("2014 Agreement"). Under the 2014 Agreement, the Consultant was granted 200,000 Options on October 15, 2013, which vested immediately. These Options had a five-year life and an exercise price of $0.24.

(5) On September 25, 2012, 250,000 Options were granted to an officer under his Employment Agreement. The Options have a five-year life, an exercise price of $0.16, and vested immediately.

(6) On December 5, 2013, 821,168 Options were granted to the Board as retainer compensation for directorship responsibilities. The Options have a five-year life and an exercise price of $0.18 with 25% vesting at the end of each quarter from the date of grant.

(7) On December 5, 2013, 150,000 Options were granted to an officer under his Employment Agreement. The Options have a five-year life, an exercise price of $0.18 with 25% vesting at the end of each quarter from the date of grant.

b) Warrant amendments

During FYE 2013 and FYE 2014, the Company amended warrants expiring on various dates for all warrant holders of the respective expiring warrants. Certain directors and officers participated in the private placement financings that resulted in the issuance of these warrants and accordingly had their warrants amended as part of the amendment activity. For accounting purposes, the value of these amendments was recorded as an increase in the value of the warrants and a reduction in Contributed Surplus in the Company's share equity based upon the increase in fair market value determined using a Black-Scholes valuation model. The related parties' warrants and their share in the fair market value increase attributed to the warrants appear in Table 26.

Table 26: Warrant Amendments affecting Related Parties

Name	Relationship	Description of Transaction			Amount	
		Amendment Date	No. and Type of Warrants	New Expiry Date	FYE 2013	FYE 2014
Various	Directors and officers	September 20, 2012 (1)	3,927,500 $0.30 warrants	October 31, 2013	$ 242,148	$ -
Various	Directors and officers	January 29, 2013 (2)	157,551 $0.37 warrants and 129,019 $0.55 warrants	March 14, 2014	15,572	-
Various	Directors and officers	September 12, 2013 (3)	837,500 $0.30 warrants	April 23, 2015	-	106,950
Various	Directors and officers	October 29, 2013 (4)	4,050,000 $0.30 warrants	May 31, 2014	-	72,900
Various	Directors and officers	March 7, 2014 (5)	157,551 $0.37 warrants and 129,019 $0.55 warrants	March 31, 2015	$ -	$ 9,582

(1) On September 20, 2012, 12,500,000 common share purchase warrants previously issued as part of a private placement in March and April 2011 and scheduled to expire on September 24, October 6, and October 20, 2012 had their expiry date amended to October 31, 2013. The remaining terms and conditions of the warrants remained unchanged.

(2) On January 29, 2013, 1,575,500 common share purchase warrants previously issued as part of a private placement in April and May 2010 and previously amended on October 20, 2011 and scheduled to expire on January 31, 2013, had their expiry date amended to March 14, 2014. The warrants consisted of 129,019 warrants exercisable to buy one common share at $0.55 and 1,446,481 warrants exercisable to buy one common share at $0.37 (the "$0.37 Warrants"). The expiry date for the $0.37 Warrants will be reduced to a period of fourteen 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 equals or exceeds $0.55. The reduced exercise period of fourteen days will begin seven calendar days after the tenth Premium Trading Day.

(3) On September 12, 2013, 11,250,000 common share purchase warrants previously issued in three tranches as part of private placement in March and April 2012 and scheduled to expire on September 23, October 9, and October 26, 2013 had their expiry dates amended to April 23, May 9, and May 26, 2015. The new expiry dates of the warrants will be reduced to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrant (the "Premium Trading Days"), the closing price of the common shares on the TSXV equals or exceeds $0.37. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the warrants were unchanged.

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

seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the warrants were unchanged.

(5) On March 7, 2014, 1,575,500 common share purchase warrants previously issued as part of a private placement in April and May 2010 and previously amended on October 20, 2011, and January 29, 2013, and scheduled to expire on March 31, 2014, had their expiry date amended to March 31, 2015. The expiry date for the $0.37 Warrants will be reduced to a period of fourteen 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 equals or exceeds $0.55. The reduced exercise period of fourteen days will begin seven calendar days after the tenth Premium Trading Day.

c) Share equity and other transactions

Details related to the FYE 2014 private placements are described under Liquidity and Capital Resources. The share purchases by related parties were measured at the exchange amount consistent with all other participants in the private placements. Related party participation in private placements and other transactions during FYE 2013 and FYE 2014 are summarized in Table 27.

Table 27: Share Equity and Other Transactions

Name	Relationship	Description of Transaction	Amount	
			FYE 2013	FYE 2014
Various	Directors and officers	January 30, 2013, participated in a private placement acquiring 697,100 units representing 19% of the total private placement (1)	$ 97,594	$ -
Dr. Brent Norton	Director	Consulting agreement service payments (2)	$ 180,734	$ 89,584

(1) In January 2013, the Company completed a private placement and issued 3,605,258 units at $0.14 per unit for gross proceeds of $504,736. Each unit consisted of one common share and one common share purchase warrant with each warrant exercisable into one additional common share at a price of $0.26 for a period of 18 months from the date of issue. Certain directors and officers participated in the private placement with a gross investment of $97,594.

(2) Under the 2013 Agreement, the Consultant was paid a daily rate for invoiced time as services were provided. The Consultant was also entitled to certain cash bonuses based upon his material contribution to the Company successfully achieving objectives under the Company's Executive Bonus Plan ("EBP"). Compensation paid under the 2013 Agreement for services during FYE 2013 was $180,734. There were no bonuses earned or paid related to the EBP during FYE 2013.

Under the 2014 Agreement, the Consultant continued to be paid a daily rate for invoiced time as services were provided. The Company and the Consultant mutually agreed to end the consulting agreement effective December 31, 2014. The Consultant was also entitled to certain cash bonuses based upon his material contribution to the Company successfully achieving objectives under the EBP. There were no bonuses earned or paid under the EBP during FYE 2014.

d) Contingent transactions

Upon the purchase of a library of molecules in November 2007, the Company became contingently liable for the issuance of 1,431,441 common shares as part of the purchase consideration should certain development milestones be subsequently achieved by any molecule from the small cell lung cancer ("SCLC") library acquired under the purchase. One-half of this contingent share consideration is payable upon the first occasion any molecule achieves one of the following milestones:

i. when the Company is given notification of acceptance of an IND and an IND acceptance number is received; or,
ii. when either the United States (U.S.) or the European patent authorities issue the Company a final patent.

The second half of this contingent share consideration is payable upon any molecule achieving both milestones.

If by November 27, 2015, the eighth anniversary date of the transaction, these milestones are not achieved and the contingent consideration is 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:

i. issue the contingent consideration of 1,431,441 common shares at fair value, or
ii. 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 October 2011, the Company received a patent from the United States Patent and Trademark Office for a U.S. patent filing related to COTI-2. COTI-2 is a molecule from the SCLC library acquired under the purchase. Upon receipt of the patent, the Company issued 715,720 common shares to the former shareholders of DDP (which includes the Company's current Chairman and the current President and CEO) representing one-half of the contingent consideration for meeting the milestone of the issuance of a final patent in either the U.S. or Europe. The fair market value of the share consideration issued was $164,616 as determined upon issuance.

The Company has determined that the achievement of the second milestone for COTI-2 does not meet IFRS guidance provided in IAS 37, Provisions, which states that where the event is "more likely than not" to occur such event should be recognized. Major factors considered in the likelihood determination included: the Company's current financial capacity to develop COTI-2 successfully through to achieving this milestone; the cost, time and expertise required in the IND application; the uncertainty inherent in the remaining testing for COTI-2 prior to filing an IND application; and finally the risk that the IND application will be approved by the FDA. The inability to meet the more likely than not criteria would apply to any of the other Molecules based upon the significant cost and timeline in advancing them through both milestones.

e) Amounts due to related parties

At April 30, 2014, there were directors' fees payable of $26,250 (2013 – $49,000) and accrued salaries and benefits and outstanding vacation pay owing to management of $76,671 (2013 – $63,537).

Outstanding Share Information

Outstanding share information at the close of business on July 23, 2014 is set out in Table 28.

Table 28: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	103,002,398	
Diluted [(1)]	167,445,727	
Weighted average outstanding [(2)]	91,289,240	
Common share warrants		
$0.26 warrants	3,569,458	Jul 29/14
$0.20 compensation warrants	54,360	Jul 29/14
$0.26 warrants	2,412,397	Nov 30/14
$0.20 compensation warrants	23,000	Nov 30/14
$0.26 warrants	2,003,498	Dec 20/14
$0.20 compensation warrants	65,213	Dec 20/14
$0.20 warrants	1,250,000	Feb 4/15
$0.26 warrants	9,141,465	Feb 15-27/15
$0.20 compensation warrants	213,797	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	11,250,000	Apr 23 - May 26/15
$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
	58,360,413	
Common share stock options		
$0.01 - $0.25	4,455,157	Sep 9/14 - Sep 26/16
$0.26 - $0.50	1,627,759	Apr 30/15 - Dec 4/18
	6,082,916	

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

[(2)] Weighted average shares outstanding calculated from May 1, 2013 to July 23, 2014.

Financial and Operational Progress & Outlook

Financial Outlook Q4-FYE'14 into FYE 2015

In Q4-FYE'14, the Company continued to meet with prospective licensing partners in select markets for its lead oncology compound, COTI-2. The positive impact of COTI-2 on p53 mutations that occur in more than 50% of all cancers has been confirmed in a number of different studies and repeat studies during FYE 2014 including Q4-FYE'14. These results have been shared on a continuous basis with a broad group of interested parties to support efforts in licensing the compound for further development. The Company maintains and updates a secure scientific data room that allows interested parties to review data related to their due diligence efforts as their interest and time permits.

As noted during the year in the MD&A discussion, it has become clear to management that while COTI-2 results continue to be positive, potential licensees are seeking positive confirmatory human data as an inciting event to license. The Company explored the opportunity to do this with a number of institutions during the year but more intensely in Q4-FYE14. In this regard, MD Anderson Cancer Center in Houston, TX has shown great interest built upon the extensive study and testing they have done with COTI-2 since initially being engaged for such work in July 2012.

The Company has a number of important objectives to drive the business to revenue planned for fiscal 2015. However, in order to realize its objectives, the Company will require additional funding. Funding will also be needed to repay the $400,000 debenture outstanding at the April 30, 2014 year-end that is due in February 2015. Funding plans for the year were highlighted in the Liquidity and Capital Resources section where certain events subsequent to the year-end have already been achieved including:

- the completion of the second tranche of the financing that was underway at the April 30, 2014 year-end; and,
- obtaining an OTCQB listing in the U.S. to support U.S. investor relations efforts with a listing target in the first quarter of fiscal 2015.

Additional private placement equity financings will be required to fund operations through fiscal 2015 with the Company planning to close a major financing in the first six months of fiscal 2015 in the U.S. Additional funding sources may include:

- the exercise of options/warrants that could occur with an increase in the stock price above current exercise prices;
- government funding;
- co-development project funding from interested partners; and,
- a licensing agreement for COTI-2, or one of the collaboration assets.

The key operational objectives of the Company for fiscal 2015 are set out below.

1) COTI-2

To complete the 28-day two-species toxicity experiments, commenced in February 2014, in the first quarter of fiscal 2015.

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

- IND submission writing;
- Phase 1 test protocol preparation;
- Investigator's brochure preparation;
- Pre-filing FDA meeting; and,
- Electronic submission of IND.

To obtain Orphan Drug Designation for COTI-2 in the treatment of ovarian cancer with a target for this in the first quarter of fiscal 2015.

To commence the Phase 1 clinical trial of COTI-2 in the second half of the fiscal year. The estimated cost for this trial is approximately $3.5m USD.

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.

2) R&D Collaborations

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

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.

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

3) AML Program

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.

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.

4) New revenue initiatives

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

To launch the CHEMFirm product service.

Product Development Progress – Q4-FYE'14 and Future Outlook

The Company continued to make progress in developing its drug candidate pipeline during Q4-FYE'14 with primary focus on COTI-2 and secondary focus on the AML project.

a) COTI-2

Key activities included:

- Continuation of the COTI-2 toxicity studies;
- Commencement of the COTI-2 IND submission document;
- Submission of an application for Orphan Drug Designation in the treatment of ovarian cancer; and,
- Completion of additional supporting tests and analysis on bioavailability and oral formulation for the IND filing and future human testing.

In February 2014, the Company announced that funding had been obtained to continue the final toxicity studies that had begun in Q2-FYE'14. A contract was signed for the final 28-day two-species toxicity testing with a Montreal based CRO and the dosing phase of these animal studies were completed at the quarter-end. The post dosing observation period and pathology work was to follow in May 2014 with a preliminary report on the study in late June 2014. These were completed and a preliminary report received with a final report expected by the end of Q1-FYE'15.

The Company commenced the preparation of its IND submission document for COTI-2 with its CRO consultant based in North Carolina in March 2014. Initiating the submission writing allows for the timely inclusion of the important study results of the final 28-day two-species toxicity testing anticipated in July 2014 with a target submission in Q2-FYE'15.

The Company commenced the preparation of an Orphan Drug application for the treatment of ovarian cancer using COTI-2 late in Q3-FYE'14 in conjunction with a Boston based consulting specialist. These efforts resulted in a submission to the FDA in early April 2014. Subsequent to the year-end, in June 2014 the Company was advised of the granting of this designation, which provides potentially significant benefits for the compound and its licensee.

Additional testing related to COTI-2's oral formulation, scale up of the manufacture of COTI-2 for quantities necessary for the final formulation to be used in the anticipated human trial, and finalizing and validating detection methods for COTI-2 were also conducted during the quarter. These preclinical experiments provide important input for the IND submission.

Acute Myelogenous Leukemia

Like many other cancers, AML is the result of multiple gene mutations that affect multiple cell signaling kinase pathways. With few exceptions, traditional therapies targeting a single abnormal kinase have produced disappointing long-term results. The Company has identified three compounds active in

multiple leukemia cell lines including human cell lines with the FLT3 mutant kinase, which is the most frequent molecular mutation in AML. Development work on these compounds continued during Q4-FYE'14 as noted below.

Test results received in Q3-FYE'14 indicated that all three AML compounds tested in an animal model of FLT3 mutant human AML using MV4-11 tumor cells were active. One of the compounds was particularly active in comparison to the other two compounds. The Company believed the xenograft results seen in these initial animal experiments could be improved through a formulation change of the compounds to improve solubility and bioavailability. Accordingly, the Company engaged a U.K. based contract formulation company to conduct this work. Formulation improvements were identified and work was completed in this regard during Q4-FYE'14.

The Company's IRAP funding, as highlighted in the operational results reviews above, ended at the end of March 2014. The Company received approximately $211,000 over the three year life of the grant to support the AML project. Testing of the new formulations in an animal xenograft will occur in FYE 2015 as financial resources permit.

b) Other Projects

Because of limited financial resources, the Company has a number of drug compounds and programs for which further development remains on hold or moves modestly forward based upon available internal labour.

The Company is exploring a variety of ways to realize value on its compounds and its technologies or further their development through co-development projects.

Collaborations and Co-Development Projects

The Company continues to seek R&D development projects with pharmaceutical and biotech companies as well as research scientists for commercial validation of the technology. This is expected to continue in FYE 2015 as the Company commenced some preliminary work on methicillin-resistant staphylococcus aureus ("MRSA") in response to the interest of a European based Pharma.

The three collaborations announced in fiscal 2013 progressed during fiscal 2014 as discussed more fully below. The timing for the completion of these projects is uncertain since the Company is reliant on the project collaborators to complete certain testing following COTI's discovery work.

(1) Anti-scarring Discovery Project with Western University

In July 2012, the Company signed a collaborative research agreement ("CRA") effective for two years from July 25, 2012, with Western University ("Western") and a Western researcher located in London, Ontario, Canada. Under the agreement, the Company will utilize its proprietary technology CHEMSAS® to discover and optimize novel drug candidates as potential therapies for minimizing central nervous system ("CNS") scarring following trauma or stroke. The researcher and Western will evaluate the identified compounds to test the suitability of the molecules as leads for the cellular target. COTI is

solely responsible for its internal costs associated with the performance of its obligations under the CRA. Western is solely responsible for identifying and securing the funding to perform its obligations under the CRA. Western and COTI will jointly own all rights, title and interests in and to Intellectual Property ("IP") that is developed by COTI researchers and Western researchers in the collaboration. Ownership of the joint IP will be equal unless decided otherwise by the two parties. If any of the candidates meet pre-determined development criteria, COTI and Western will work jointly to move the candidates towards clinical confirmation of activity and a commercial licensing transaction.

Under the CRA, the Company received a payment of $25,000 from Western as a service fee for its screening and validation performance in fiscal 2013. A small library of seven potential lead compounds were identified by COTI in October 2012 and provided to Western to test for activity against the specific cellular target. In May 2013, the Company announced that two of the compounds provided met the predetermined development criteria and Western was proceeding with further testing on the other compounds. Animal testing on several of the compounds proceeded during fiscal 2014 and positive results justified proceeding with further animal testing to provide a strong proof of concept scientific data package. At April 30, 2014, Western was waiting approval on a grant application to provide additional financing for completing the proof of concept studies. COTI and Western were also moving ahead jointly with a patent application. Once the application is filed, Western would be in a position to share the results with an identified international partner for licensing or additional funding in a co-development.

(2) Angiogenesis Discovery Collaboration with Delmar Chemicals Inc.

On August 22, 2012, the Company entered into a research and development collaboration agreement (RDCA) to advance selected small molecules with Delmar Chemicals Inc. ("DCI") of Montreal, Quebec, Canada. The companies will work together to discover, select, screen and synthesize compounds for highly desirable commercial and therapeutic targets that have been identified as being of specific interest to major pharmaceutical companies. The agreement does not have a specific end date and may encompass a number of compound targets over several years; however, the agreement may be terminated subject to sixty days notice by either party. Under the RDCA, COTI will utilize CHEMSAS® to discover and optimize novel drug candidates designed to address effectively a number of opportunities. COTI will also be responsible for filing provisional composition of matter patents on any compounds forwarded to a major pharmaceutical company (Major Pharma) for their evaluation and managing the relationship with such Major Pharma. Delmar will provide medicinal chemistry analysis of the chemical structures as well as the synthesis of the most promising candidates. Each party is solely responsible for its internal costs associated with the performance of its obligations under the RDCA.

The initial project targets angiogenesis inhibiting small molecules identified to be of potential interest in the Open Innovation Drug Discovery ("OIDD") program of Eli Lilly and Company. COTI identified a series of novel structures and submitted these to the OIDD program in February 2013. On May 6, 2013, the Company announced the compounds successfully passed the initial computational screens that focused on novelty, synthetic feasibility, and potential toxicity. The composition of matter patentability of these optimized structures was evaluated and confirmed. Two of the three compounds have been

synthesized by DCI and the final compound synthesis is expected early in fiscal 2015. Once the final compound is synthesized, the compounds will be transferred to the OIDD program for its in-house assay testing. Results from such testing are expected to take 4-6 months.

The Company's costs of performance under the RDCA, consisting of labour and associated employee benefits and patent search costs, were expensed as incurred and reported in Research and product development in the Company's Statements of Comprehensive Loss in the annual financial statements.

(3) Lead discovery project with multinational pharmaceutical company

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

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

The Company commenced the first step of the project in December 2012 and delivered an initial set of compounds in February 2013. In May 2013, the Company announced initial test results received from the Pharma indicated a number of the submitted compounds met or exceeded the project target objectives and further testing was ongoing. The Company is awaiting further direction from the Pharma as to final test data and conclusions as to what further refinements and optimization might be required to get final candidates for the Pharma to evaluate in the second phase of the project. The Company has identified some independent testing of the compounds, based upon the preliminary test data, which could be done to move the project along if it had the financial resources for this. While the project appears to have stalled for a period as COTI awaits the Pharma, the therapeutic target is believed to be of significant interest to a number of other pharmaceutical companies. This would be a viable direction for the project should the Pharma not decide to move ahead, since a number of compounds show great promise in the initial assays. Depending upon the results of the second phase testing, either a licensing deal will be concluded or COTI will retain all data and intellectual property and will be free to engage other parties who may have an interest in the target.

The Company's costs of performance under the DDA, consisting of labour and associated employee benefits and patent search costs, were expensed as incurred and reported in Research and product development in the Company's Statements of Comprehensive Loss in the annual financial statements.

CHEMSAS® Applications

The Company has identified a number of additional ways to generate monetary value for its shareholders from the CHEMSAS® platform. These include:

- A web based portal approach wherein customers can access specific test predictions from the suite of testing predictions available in CHEMSAS® to provide guidance with respect to their specific compound and scientific interest; and,
- CHEMFirm a report based product that provides a customer with predictive scores across a range of core tests along with an interpretation of the scores to highlight issues and recommended action.

The latter product has had substantial internal development completed including alpha testing of the product with various potential customers of the product such as investment banks, and pharmaceutical and biotech companies. Using initial feedback, the CHEMFirm product has been refined to make improvements. A preliminary business plan for launching the product was completed late in fiscal 2014 with a goal to position the product for launch once refinements are made to the plan and funding is available to execute on the plan.

New Technologies

During the past three years, the Company also commenced development of a new technology based upon the substantial database of 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. This represents a real life application of the life sciences' concept of "personalized medicine". A working model of Rosalind has been developed and a provisional patent was filed for the technology in December 2012. The next steps 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 validation. The timing of these activities will be limited by available resources: financial, human, and time.

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 affect on the Company during Q4-FYE'14 and for 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. Despite these uncertainties, COTI's lead compound, COTI-2, continues to progress through preclinical testing and perform as predicted.

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 April 30, 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 a 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 require first meeting the scientific due diligence requirements of prospective customers. While continued positive test results for COTI-2 during fiscal 2014 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 have hindered project development and the Company's efforts to generate needed capital. 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. Among the factors to be considered in determining the price of the Offering are the following:

- COTI's future revenue prospects both short and long term;

- the current market price of its securities in relation to such future cash flows;
- the pricing of comparable companies' deals engaged in activities similar to COTI such as unit or share pricing, warrant offering size, warrant pricing and warrant expiry term;
- the prospects of COTI's prospective markets and the industry in general; and,
- COTI's financial and operating management record.

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 2014 and future accounting policy changes affecting FYE 2015 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, 2013. Only one of these was identified as affecting the Company's financial reporting given the Company's current operations. The Company adopted this new standard as described below.

i. IFRS 13 – Fair Value Measurement

IFRS 13 established a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required, or permitted by other IFRSs. It also clarified the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also enhanced the disclosures on fair value measurement. In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. The adoption of this standard had no material impact on the Company's financial statements, but did result in increased disclosures on the fair value measurement of the Company's financial instruments.

(b) Recent accounting pronouncements not yet adopted:

Certain pronouncements have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee that are mandatory for annual periods

beginning subsequent to the April 30, 2014 year-end. Many of these updates are not applicable to COTI or are inconsequential to the Company and have been excluded from the discussion below. 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. 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 amendments are effective for annual periods beginning on or after January 1, 2014, with retrospective application. The Company intends to adopt the amendments in its financial statements for the annual period beginning May 1, 2014. The Company does not expect the amendments to have a material impact on the financial statements based upon the Company’s current operations.

iii. 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 CGU 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 apply retrospectively for annual periods beginning on or after January 1, 2014. The Company intends to adopt the amendments in its financial statements for the annual period beginning on May 1, 2014. The amendments affect certain disclosure requirements only and the Company does not expect the amendments to have a material impact on the financial statements based upon its current operations.

iv. 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;
- Disclosures on the aggregation of operating segments in IFRS 8 Operating segments;
- 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.