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

Fiscal 2014 – Third Quarter
for the three and nine months ended January 31, 2014

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Overview

The following Management Discussion and Analysis (MD&A) is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. (COTI or the Company) for the quarter and nine months ended January 31, 2014. This MD&A is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. The Audit Committee of the Company, as authorized by the Board of Directors, approved the content of this MD&A on March 13, 2014. Disclosure contained in this document is current to this date, unless otherwise stated. This analysis should be read in conjunction with the unaudited condensed interim financial statements (interim financial statements) and notes thereto for the quarter and nine months ended January 31, 2014. These interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and in particular with International Accounting Standard 34: Interim Financial Reporting.

All dollar amounts are expressed in Canadian dollars unless stated otherwise.

Quarterly interim reports, annual audited financial statements, the Company's most recent Annual Information Form (AIF) of August 2012, and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

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

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

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Our Business	• Intends to license its targeted molecules • Plans for further testing of COTI-2 leading to an investigational new drug (IND) filing and readiness for a Phase 1 clinical trial • Plans for future application of the CHEMSAS® technology on a collaboration basis • The Company's commercialization strategy for collaborations
Liquidity and Capital Resources	• Expectations of future expenditures on patents and computer software and hardware • Ongoing requirements to seek additional cash resources including in U.S. and in alternative financing such as a joint venture
Foreign Exchange Exposure	• Expectation of continued limited exposure to currency fluctuations as limited use of foreign contract research organizations
Financial and Operational Progress & Outlook	• Expectations on investment tax credit recoveries • Plans for continued research and development spending • Scientific experiments for COTI-2 progressing to optimize the licensing value of the drug candidate to IND ready status • The ability to continue to develop AML compounds as a follow on licensing program • Collaboration projects ongoing with Western University, Delmar Chemicals Inc. and a multinational pharmaceutical company leading to completion and revenue • Activity in p53 tumours representing breakthrough therapy for many cancer patients
Industry and Economic Risk Factors Affecting Performance	• The expectation of continued losses until a revenue transaction is secured • Plans to negotiate future licensing agreements • Plans to raise additional financing through different venues and mechanisms available to the Company
Changes in Accounting Policies	• The adoption in fiscal 2015 of new accounting standards issued by the Accounting Standards Board

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

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

- An ability to obtain sufficient financing to support working capital requirements and fund further research and development initiatives
- An ability to further enhance and add features to the CHEMSAS® technology or incorporate advances in the state-of-the-art of artificial intelligence for internal and collaborative purposes
- A continuation of favourable preclinical test results from the COTI-2 research and development (R&D) program and an ability to meet the requirements for regulatory approval
- Obtaining patent protection for the Company's compounds and other intellectual property
- An ability to attract and retain skilled and experienced personnel and to maintain relationships with third party clinical research organizations

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

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

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

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

The Company

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

and its common shares were listed and posted for trading on the TSXV under the symbol COT on October 30, 2006.

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 3015402 Ontario Inc. operating as DDP Therapeutics (DDP), in which the Company had, up to the date of the acquisition, a 10% ownership interest. DDP was formed in early 2005 to develop a library of molecules initially targeted at small cell lung cancer that were discovered by the Company using its drug discovery technology.

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

Our Business

COTI is a leading-edge technology company specializing in accelerating the discovery and development of small molecules – dramatically reducing the time and cost to bring new drugs to market. COTI'S proprietary artificial intelligence system, CHEMSAS®, utilizes a series of predictive computer models to identify compounds with a high probability of being successfully developed from disease specific drug discovery through chemical optimization and preclinical testing. These compounds are targeted for a variety of diseases, particularly those for which current treatments are either lacking or ineffective.

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's greatest focus is on preparing for an IND clinical trial submission based on the positive preclinical test results achieved for COTI-2 to date against a number of cancer indications. Current testing initiatives and planning would enable an IND filing in calendar 2014. Upon acceptance of an IND filing, COTI-2 would be available for licensing or co-development as a Phase 1 ready compound.

The Company also seeks to leverage CHEMSAS® to identify targeted lead candidates of commercial interest to pharmaceutical, biotechnology, research and academic organizations on a collaborative basis. The Company's commercialization strategy for collaborations involves an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results and a royalty on sales. This service offering provides prospective customers with an efficient and cost effective approach for generating targeted discovery stage compounds while

enhancing value to COTI and its shareholders from the underlying CHEMSAS® technology. This collaboration approach resulted in three engagements being announced in fiscal 2013; one with a Canadian university, one with a private chemical synthesis company and one with a multinational pharmaceutical company. These collaborations have been a major focus during fiscal 2014.

Financial Review of Operations

The comparable financial results of the Company for the three and nine month periods ending January 31, 2014, and January 31, 2013, are summarized in Table 2. The Company reported a quarterly net loss of $671,386, or $0.01 per share, in the third quarter of fiscal 2014 (Q3-FYE'14) compared to a net loss of $696,785, or $0.01 per share, for the third quarter a year earlier (Q3-FYE'13). For the nine months ended January 31, 2014 (YTD-FYE'14) the Company reported a loss of $1,769,658 or $0.02 per common share compared to a loss of $2,182,223 or $0.03 per common share for the nine months ended January 31, 2013 (YTD-FYE'13). The loss per share for Q3-FYE'14 and YTD-FYE'14 was calculated on a greater number of shares outstanding during these periods than in the comparable periods as follows: YTD-FYE'14 – 87,822,168 and Q3-FYE'14 – 92,682,499 (YTD-FYE'13 – 74,479,339 and Q3-FYE'13 – 74,531,589).

Table 2: Statement of Operating Results

	Three months ended		Nine months ended	
	January 31, 2014	**January 31, 2013**	**January 31, 2014**	**January 31, 2013**
Collaboration and research service revenue:	$ -	$ 10,577	$ -	$ 25,000
Expenses (income):				
Research and product development	183,411	201,283	440,605	707,865
Sales and marketing	39,682	104,840	84,818	237,720
General and administration	480,118	433,642	1,296,995	1,370,589
Investment tax credits	(27,852)	(32,214)	(48,552)	(100,867)
	675,359	707,551	1,773,866	2,215,307
Loss before finance income (expense)	(675,359)	(696,974)	(1,773,866)	(2,190,307)
Finance income (expense):				
Interest income	1,392	463	2,942	6,360
Foreign exchange gain (loss)	2,581	(274)	1,266	1,724
	3,973	189	4,208	8,084
Loss and comprehensive loss	$ (671,386)	$ (696,785)	$ (1,769,658)	$ (2,182,223)
Loss per share:				
Basic and diluted loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)

Revenue

There was no collaboration and research service revenue recognized or earned in Q3-FYE'14 compared to $10,577 recognized in Q3-FYE'13. The Q3-FYE'13 amount related to recognition of a portion of an

upfront collaboration fee of $25,000 received under a collaboration agreement with Western University signed in July 2012. These quarterly results were consistent with the comparable nine month period results.

Operating Expenses

Operating expenses decreased from $707,551 for Q3-FYE'13 to $675,359 for Q3-FYE'14, a decrease of $32,192. This decrease related primarily to a reduction of $65,158 in sales and marketing expense offset by an increase in general and administrative expense of $46,476 as discussed below.

On a year to date basis, operating expenses decreased by $441,441 from $2,215,307 in YTD-FYE'13 to $1,773,866 in YTD-FYE'14. The decrease related to cost reductions in all major functional expense areas, as explained below.

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

Table 3 provides a breakdown of R&D expenses by major expense types for the comparable three and nine month fiscal periods ended January 31.

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

	Q3-FYE'14	Q3-FYE'13	Change
R&D testing, consulting and materials	$ 78,262	$ 66,899	$ 11,363
Synthesis	9,188	3,824	5,364
	87,450	70,723	16,727
Salaries and benefits	101,267	95,482	5,785
Professional fees	3,120	25,945	(22,825)
Other	7,475	9,133	(1,658)
	199,312	201,283	(1,971)
Government assistance	(15,901)	-	(15,901)
Total	$ 183,411	$ 201,283	$ (17,872)

	YTD-FYE'14	YTD-FYE'13	Change
R&D testing, consulting and materials	$ 128,018	$ 349,234	$ (221,216)
Synthesis	26,180	8,696	17,484
	154,198	357,930	(203,732)
Salaries and benefits	275,973	268,030	7,943
Professional fees	8,041	59,657	(51,616)
Other	22,816	24,925	(2,109)
	461,028	710,542	(249,514)
Government assistance	(20,423)	(2,677)	(17,746)
Total	$ 440,605	$ 707,865	$ (267,260)

The change between the comparable third quarter results reflects a modest decrease in expense of $17,872. This change resulted primarily from an increase in R&D testing of $11,363 offset by a decrease in professional fees of $22,825 and an increase in government assistance of $15,901.

R&D testing costs quarter over quarter primarily reflected testing on COTI-2 with the slight increase in the current year related to $15,001 in costs related to the AML project. The decrease in the comparable year over year expense of $203,732 resulted from limited financial resources to pursue further development of COTI-2 to the same extent as in the prior nine month period.

The decrease in professional fees quarter over quarter primarily related to non-recurring costs in Q3-FYE'13. These included $9,297 on a documentation project that created a scientific users' manual for the Company's CHEMSAS® process and $8,000 on business case development for a new service offering. The year to date decrease in professional fees of $51,616 compared to the prior year included these same expense items but also included scientific consultants' costs in support of COTI-2 testing with primary focus on its mechanism of action as a p53 normalizing agent.

The increase in government assistance quarter over quarter is a timing issue as to when actual third party testing occurred on the Company's AML project eligible for reimbursement under the Industrial Research Assistance Program grant funding for this project. The increase on a year over year basis of $17,746 is consistent with the third quarter increase but also reflects the timing of eligible internal labour costs allocated to the project for which reimbursement was received during the year.

b) General and Administration (G&A) Expenses

Tables 4 and 5 provide a breakdown of G&A expenses by major expense types for the comparable three and nine month fiscal periods ended January 31. The increase of $46,476 in G&A expenses quarter over quarter is primarily attributable to an increase in professional fees and corporate governance offset by a decrease in share-based compensation and "Other" expenses.

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

	Q3-FYE'14	Q3-FYE'13	Change
Amortization	$ 135,027	$ 130,564	$ 4,463
Professional fees	161,858	82,815	79,043
Salaries and benefits	85,922	88,825	(2,903)
Corporate governance	42,952	16,462	26,490
Insurance	13,926	14,595	(669)
Promotion and travel	6,174	4,120	2,054
Rent	9,346	9,346	-
Other	(36,618)	3,074	(39,692)
	418,587	349,801	68,786
Share-based compensation	61,531	83,841	(22,310)
Total	$ 480,118	$ 433,642	$ 46,476

Professional fees increased $79,043 related primarily to engaging consultants to support a number of initiatives that did not exist in the comparable prior periods. These included: investor relations efforts in Canada; strategic advice on raising awareness of the Company in Canada and the United States (U.S.); strategic advice in pursuing financing in the U.S. and in obtaining a listing on the OTCQX trading platform to provide improved market access for U.S. investors. The current quarter also reflects the re-allocation of $31,462 in expenses related to these initiatives that were previously grouped in the "Other" category for reporting in the first and second quarters of the current fiscal year. These factors are consistent with the $58,180 increase in this expense in YTD-FYE'14 compared to YTD-FYE'13.

The increase of $26,490 in corporate governance relates primarily to the timing of the Company's 2013 Annual General and Special Meeting of Shareholders (AGM), held in December 2013 compared to the 2012 AGM held in September 2012. The costs associated with the preparation and holding of this meeting thus shifted to the third quarter in fiscal 2014, as compared to being in the second quarter in the prior fiscal year. Also included in this third quarter increase were ongoing and annual costs related to obtaining a listing on the OTCQX bulletin board to facilitate and broaden the ability of U.S. retail investors and the investment community to invest more readily in the Company.

Share-based compensation decreased $22,310 in Q3-FYE'14 compared to Q3-FYE'13 primarily due to a different mix of eligible plan participants granted share options between the comparable quarters, and the timing of such grants and their vesting term. The Company also downsized its Board of Directors from eight directors to five directors at the AGM providing some cost savings on a go forward basis. For the comparable nine-month period, the decrease year over year also reflects $39,190 in share-based compensation to an Investor Relations consultant in YTD-FYE'13 that did not occur in YTD-FYE'14.

Table 5: G&A Expenses – Comparative Nine Month Periods Ended January 31

	YTD-FYE'14	YTD-FYE'13	Change
Amortization	$ 399,620	$ 391,502	$ 8,118
Professional fees	342,513	284,333	58,180
Salaries and benefits	244,637	285,838	(41,201)
Corporate governance	77,494	66,749	10,745
Insurance	41,568	43,516	(1,948)
Promotion and travel	28,807	26,342	2,465
Rent	28,038	28,038	-
Other	16,658	19,871	(3,213)
	1,179,335	1,146,189	33,146
Share-based compensation	117,660	224,400	(106,739)
Total	$ 1,296,995	$ 1,370,589	$ (73,593)

Other costs decreased $39,692 in Q3-FYE'14 compared to Q3-FYE'13 related to a reallocation of expenses previously reported under the "Other" category to Professional fees and Corporate

Governance as noted above. On a year to date basis, the "Other" category is relatively consistent between the years with YTD-FYE'14 reflecting a modest decrease of $3,213 compared to YTD-FYE'13.

c) Sales and Marketing (S&M) Expenses

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

Table 6: S&M Expenses – Comparative Periods Ended January 31

	Q3-FYE'14	Q3-FYE'13	Change
Salaries and benefits	$ -	$ 20,197	$ (20,197)
Marketing and travel	17,304	38,997	(21,693)
Professional Fees	22,000	44,762	(22,762)
Other	378	884	(506)
Total	$ 39,682	$ 104,840	$ (65,158)

	YTD-FYE'14	YTD-FYE'13	Change
Salaries and benefits	$ (279)	$ 59,076	$ (59,355)
Marketing and travel	46,615	69,074	(22,459)
Professional Fees	38,000	107,732	(69,732)
Other	482	1,838	(1,356)
Total	$ 84,818	$ 237,720	$ (152,902)

The decrease of $20,197 in salaries and benefits for Q3-FYE'14 compared to Q3-FYE'13 and the comparative year to date decrease of $59,355 reflects a reduction in staffing effective in late March 2013. Since then, the primary responsibility for sales and marketing activities has been absorbed by other employees within the Company and by consultants. Costs incurred in these activities by employees are included in the employee's core functional area of responsibility, primarily being G&A expense.

The marketing and travel costs decrease of $21,693 quarter over quarter and $22,459 year over year, relates to the timing and attendance at various conferences as well as the number of employees participating at such forums in support of licensing efforts.

The decline in professional fees by $22,762 in Q3-FYE'14 compared to Q3-FYE'13 and by $69,732 for YTD-FYE'14 compared to YTD-FYE'13 relates primarily to the use of consultants for support services on specific licensing efforts for COTI-2 and on preparation of a business case for a new service offering following staff reductions that occurred in fiscal 2012 and 2013 affecting the respective periods.

d) Investment Tax Credits (ITC)

ITC income of $27,852 was recognized in Q3-FYE'14 compared to $32,214 in Q3-FYE'13 for a decrease of $4,362 related to scientific research tax credits earned on eligible expenditures in the quarter. On a year to date basis, the decrease was $52,315 compared to YTD-FYE'13 and relates to the following:

- lower eligible scientific research and experimental development (SR&ED) expenditures during YTD-FYE'14 as such expenditures decreased $144,374 from $542,813 in YTD-FYE'13 to $398,439 in YTD-FYE'14;
- the impact of two changes in the federal SRED program announced in the March 2012 budget, which reduced the base for calculating ITCs in the comparable nine month periods: first, the overhead proxy rate allowed under the federal program decreased from 65% to 60% effective January 1, 2013; and second, qualifying expenditures to arm's length contractors are limited to 80% of the contract payments for expenditures incurred beginning January 1, 2013;
- the tax program jurisdiction in which the expenditures were incurred; and,
- the timing of claiming tax credits on a cash basis under certain programs versus an accrual basis.

Financial Results Quarterly Summary

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

Table 7: Summary of Quarterly Financial Results

FYE 2014	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(500,052)	$ (598,220)	(671,386)	-	(1,769,658)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ -	$ (0.02)

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

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

The majority of the variation by quarter across the years and quarterly year over year is explained by two expense categories as set out in Table 8. Specifically, the trend of R&D expenditures and the timing of share-based compensation have the greatest affect on swings in total expense in any given quarter and between quarters.

In fiscal 2014, R&D was steady in the first two quarters but jumped in Q3-FYE'14. Share based compensation also jumped in the third quarter, which when combined with the R&D increase represented the major change from Q2-FYE'14. G&A expense has also trended upward reflecting the increasing use of consultants following staff reductions in fiscal 2012 and 2013.

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

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

FYE 2014	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 351,377	$ 409,372	$ 418,587	$ -	$ 1,179,336
Research and product development	133,144	124,050	183,411	-	440,605
Investment tax credit	(7,093)	(13,606)	(27,853)	-	(48,552)
Share-based compensation	19,940	36,189	61,531	-	117,660
Total of expense categories	497,368	556,005	635,676	-	1,689,049
Total expense for the quarter	$ 499,478	$ 599,029	$ 675,359	$ -	$ 1,773,866
Expense categories as a % of total expense	99.6%	92.8%	94.1%	-	95.2%

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

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

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

A review of the comparable quarter year over year and within each year does not identify any discernible trends but rather, as noted above, reflects R&D spending and share-based compensation timing and trends. The availability of funding has been the major driver of R&D spending levels during these quarters.

Liquidity and Capital Resources

Table 9 summarizes the changes in capital resources for Q3-FYE'14 and Q3-FYE'13. At the end of Q3-FYE'14, the Company had cash and cash equivalents of $461,445 compared to $541,629 in capital resources at Q3-FYE'13 reflecting a decrease of $80,184. The Q3-FYE'13 balance reflected a private placement closed on January 29, 2013, for net cash proceeds of $446,075. In the current quarter, a financing for gross proceeds of $500,000 was completed after the quarter-end, as discussed below, and thus was not reflected in the Q3-FYE'14 cash balance.

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

	Q3-FYE'14	Q3-FYE'13
Used in:		
Operating activities	$(1,297,174)	$(1,620,307)
Investing activities	(104,927)	735,059
Decrease in capital resources before issuance of common shares and warrants	(1,402,101)	(885,248)
Proceeds from issuance of common shares and warrants	1,643,366	446,075
Issuance costs of warrant amendments	(6,966)	(10,690)
Investment tax credit recoveries	64,649	89,401
Interest paid	(1,347)	(619)
Decrease increase in capital resources	297,601	(361,081)
Less: unrealized foreign exchange loss on capital resources	(5,503)	1,580
Capital resources - beginning of period	169,347	901,130
Capital resources - end of period	$ 461,445	$ 541,629

(1) See Use of Non-GAAP Financial Measures

The improvement of $292,098 at the end of Q3-FYE'14 from the April 30 year-end balance of $169,347 is primarily attributable to two private placements; one in Q1-FYE'14 and another in Q2-FYE'14 that raised gross proceeds of $1,754,883; approximately $529,907 in Q1-FYE'14 and approximately $1,224,976 in Q2-FYE'14. This funding provided support for operations to the end of the third quarter. The low opening balance to FYE 2014 reflected that unlike FYEs 2010, 2011 and 2012, the Company did not close a private placement late in fiscal 2013 to replenish its cash resources. This has fostered the ongoing requirement by management to obtain additional financing in the current year. The lower cash balance entering fiscal 2014 caused management to limit its R&D operating activity during the first half of fiscal 2014 compared to the comparable six month period in fiscal 2013 as discussed under the Financial Review of Operations and the Financial Results Quarterly Summary.

a) Working Capital

The Company's working capital at the end of Q3-FYE'14 was $332,349, compared to $374,832 at Q3-FYE'13 and $53,255 at FYE 2013. This increase since FYE 2013 reflected the positive impact of the private placement financing completed in the Q1-FYE'14 and Q2-FYE'14 as noted above. This level of working capital highlights the need for additional financing to fund operations, and efforts in this regard are discussed below.

Current assets continue to remain liquid and there are no restrictions on the use of these assets. Cash equivalents are invested in instruments with maturities of three months or less. There were no short-term investments held at Q3-FYE'14, which was consistent with FYE 2013. Current assets decreased to $669,328 from $1,169,729 at Q2-FYE'14 but were increased by $237,559 from the balance of $431,769 at FYE 2013 due to the increase in cash and cash equivalents. Current liabilities were modestly lower at Q3-FYE'14 with a balance of $336,979 compared to $345,837 at Q2-FYE'14 and $378,514 at FYE 2013.

The Company's exposure to fluctuations in the recoverability of its financial assets is limited as cash not required for current purposes is held in interest bearing cash accounts. The short periods to maturity of these instruments and their capacity for prompt liquidation result in future settlement amounts that are consistent with carrying values. Given the nature of the Company's financial liabilities, there is limited risk that future settlement amounts will differ from carrying values. The Company does not have any derivative financial instruments, nor does it engage in hedging transactions, as risk exposure is limited.

The Company's contractual obligations to third parties at the end of Q3-FYE'14 are limited to the current fiscal year as summarized in Table 10.

Table 10: Contractual Obligations

Obligation	Total	2014	2015
Insurance finance contract	$ 32,793	$ 32,793	$ -
Research and development contracts	83,056	83,056	-
Total contractual obligations	$ 115,848	$ 115,848	$ -

b) Going Concern Risk

The Company has formulated goals for the upcoming year to advance the testing for COTI-2 in enhancing its attractiveness to potential licensees and to move the AML project and other projects forward as resources permit. For COTI, the material uncertainties related to working capital and cash resources discussed above, raise significant doubts about the ability of the Company to accomplish its goals. These conditions highlight that the Company has not yet established commercial operating revenues and operating cash flows continue to be negative.

In order to accomplish its goals and alleviate the going concern risk, the Company is taking steps to obtain additional cash resources. This includes actively seeking potential customers, partners and collaborators as a means of furthering molecule development and generating revenue streams, and pursuing alternative sources of financing, including but not limited to, raising capital in the public market and securing government grants. As evidence of these efforts, the Company closed private placements in each of the first two quarters of this fiscal year that raised gross proceeds of approximately $1,754,883. Further, subsequent to the end of Q3-FYE'14, the Company closed a private equity placement for gross proceeds of $100,000 and issued a debenture for $400,000 as discussed below. The Company also announced subsequent to the quarter end, that it had engaged a U.S. investment bank, Maxim Capital LLC, to render certain services as a strategic advisor to the Company and act as the Company's exclusive placement agent for a proposed best efforts private placement of securities of the Company in the U.S. market. Further, the Company has discretion with many of its expenditure activities and plans to manage these activities in 2014 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future periods.

c) Financing Activities Subsequent to Q3-FYE'14

i. Private equity and debenture placement:

On February 5, 2014, the Company completed an arm's length non-brokered private placement equity of 769,230 units consisting of one common share and one warrant (Equity Warrant) of the Corporation (Units) at a price of $0.13 per Unit for total gross proceeds of approximately $100,000. Each Equity Warrant is exercisable for one common share of the Corporation at an exercise price of $0.26 per share for a period of 5 years from the date of issue.

Also on February 5, 2014, the Company completed an arm's length non-brokered private placement of a non-convertible debenture (Debenture) for $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 one-year term with vesting occurring immediately upon issuance of the Debenture. A redemption fee of $40,000 is payable by the Company upon early repayment of the Debenture. 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. There was no finders' fee paid in these private placements.

The common shares and Equity Warrants comprising the Units, as well as the Debenture Warrants and common shares issuable upon the exercise of the Equity and Debenture Warrants are subject to restrictions on resale, which expire on June 5, 2014, in accordance with applicable securities laws and the policies of the TSX Venture Exchange.

ii. Warrant amendment:

On March 7, 2014, 1,575,500 warrants issued as part of its private placement in April and May 2010 and due to expire on March 14, 2014, were amended; as the Company recognizing the potential financing source of such warrants that could be retained at a relatively low cost. The amendment was for the expiry date only and the new expiry date was set as March 31, 2015. 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.

iii. U.S. Advisory and Financing Agreement:

On February 4, 2014, the Company announced that it had entered into an Agreement with New York City based Maxim Group LLC (Maxim) whereby Maxim would: (i) render certain services as a strategic advisor to the Company; and (ii) act as the Company's exclusive placement agent for a proposed best efforts private placement of securities of the Company. The terms of the proposed offering have not yet been determined but will be established within the context of the market and will be negotiated between the Company and Maxim. The initial term of the Agreement is four months.

Under the terms of the Agreement, the Company has agreed to a compensation package with Maxim comprised of a strategic advisory fee, a monthly work fee, a financing placement fee consisting of cash commission and common share placement warrants, subject to compliance with TSX Venture Exchange policies, and the reimbursement of expenses. The terms of compensation and the terms of any proposed offering are subject to the final approval of the TSX Venture Exchange.

The Company intends to use the net proceeds received from the financing to support further development of its lead oncology compound, COTI-2, including: the completion of 28-day two-species toxicity studies, the preparation and filing of its investigational new drug application with the U.S. Food and Drug Administration, and the execution of a Phase 1 clinical trial. Proceeds will also be used to

support the completion of three current research and development collaborations, new product development, and for working capital and general corporate purposes.

iv. Proposed Joint Venture:

The Company has been looking at various alternative approaches to fund the development of the Company's lead oncology asset, COTI-2, in addition to its historic approach of non-brokered private equity raises. In this regard, the Company announced on February 26, 2014, the signing of a non-binding letter of intent (LOI) to form a joint venture (JV Co) with Portage Biotech Inc. (Portage), a public company, listed and traded on the Canadian Securities Exchange and OTC NASDAQ. The joint venture would fund and direct the Phase 1 development of the Company's clinical oncology candidate, COTI-2.

Under the terms of the LOI, the Company will grant an exclusive limited license for COTI-2 to JV Co. JV CO will develop 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

The companies are currently completing the remaining due diligence and will enter into negotiations of a definitive plan and agreement of joint venture (the "JV Agreement") and an exclusive limited license agreement in respect of COTI-2. Portage and COTI will work together to assemble a comprehensive drug development and licensing team to direct the optimal clinical development of COTI-2. Dr. Declan Doogan, CEO of Portage, and formerly Senior Vice President and Head of Worldwide Development at Pfizer Global Research & Development, will be overseeing the clinical development of COTI-2. Other members of the team will be finalized as the joint venture agreements, development plan, and budgets are formalized.

Strategically, the formation of the joint venture is expected to bring substantial technical and industry expertise to the development of COTI-2 and should enable the asset to move into clinical trials in calendar 2014 and provide the human data validation that is of primary interest to many potential licensing partners in mid-2015.

Upon completion of the transactions contemplated in the LOI, Portage and the Company will pay finders' fees to parties who assisted in putting the arrangement together subject to applicable securities laws and the policies of the TSX Venture Exchange.

Off-Balance Sheet Arrangements

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

Foreign Exchange Exposure

The Company has historically entered contracts denominated in United States dollars (USD) and Euros (EUR), and, as a result, the Company has exposure to risk from fluctuations in exchange rates between the CAD, USD and EUR. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause fluctuations in the Company's operating results and cash flows.

During Q3-FYE'14, the Company's foreign exchange exposure was exclusively related to the USD. The amount of this exposure is not material to the Company's operations with a foreign exchange gain of $2,581 recorded in the quarter compared to a loss of $274 in Q3-FYE'13. The gain recorded in Q3-FYE'14 reflected $5,503 in unrealized gains resulting from holding USD cash balances at the quarter-end compared to $1,580 in unrealized losses at Q3-FYE'13.

Related Party Transactions

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

a) On December 5, 2013, the Company awarded 821,168 share options to the directors with an exercise price of $0.18. The options have a five-year life and vest on an equal basis at the end of each quarter during the first year. The options were awarded as retainer compensation for the services of the directors on the Board and its committees for the upcoming year.

b) On December 5, 2013, 150,000 share options were granted to an officer of the Company with an exercise price of $0.18. The options have a five-year life and vest on an equal basis at the end of each quarter during the first year. The options were awarded on a discretionary basis by the Board in recognition of service performed during the year and to provide incentive compensation linking future performance of the Company's common shares to the efforts of the officer as part of the management team.

c) On December 5, 2013, the Board of Directors amended, under the authority of the Share Option Plan, 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.

Outstanding Share Information

Outstanding share information at the close of business on March 13, 2014 is set out in Table 11.

Table 11: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	92,682,499	
Diluted [1]	145,312,617	
Weighted average outstanding [2]	88,540,575	
Common share warrants		
$0.30 warrants	8,152,500	May 31/14
$0.30 warrants	2,187,500	May 31/14
$0.30 warrants	2,160,000	May 31/14
$0.26 warrants	3,605,258	Jul 29/14
$0.20 compensation warrants	232,652	Jul 29/14
$0.26 warrants	2,412,397	Nov 30/14
$0.20 compensation warrants	23,000	Nov 30/14
$0.26 warrants	2,003,498	Dec 20/14
$0.20 compensation warrants	65,213	Dec 20/14
$0.20 warrants	1,250,000	Feb 6/15
$0.26 warrants	4,166,666	Feb 15/15
$0.26 warrants	4,974,799	Feb 27/15
$0.20 compensation warrants	181,797	Feb 27/15
$0.26 warrants	1,066,667	Mar 1/15
$0.20 compensation warrants	85,333	Mar 1/15
$0.37 warrants	1,446,481	Mar 31/15
$0.55 warrants	129,019	Mar 31/15
$0.30 warrants	3,125,000	Apr 23/15
$0.30 warrants	6,250,000	May 9/15
$0.30 warrants	1,875,000	May 26/15
$0.26 warrants	769,230	Feb 6/19
	46,162,010	
Common share stock options		
$0.01 - $0.25	4,840,349	Sep 9/14 - Sep 26/16
$0.26 - $0.50	1,627,759	Apr 30/15 - Dec 4/18
$0.51 - $1.00	-	Feb 16/14
	6,468,108	

[1] Assumes conversion of all outstanding common share stock options and warrants.
[2] Weighted average shares outstanding calculated from May 1, 2013 to March 13, 2014.

Financial and Operational Progress & Outlook

Financial Outlook for Remainder of FYE 2014

The Company continued to conduct further testing on COTI-2 during the quarter in anticipation of completing 28-day two-species toxicity testing and preparing its investigational new drug (IND) filing with the U.S. Food and Drug Administration (FDA). Some of this important testing was conducted at the MD Anderson Cancer Centre in Houston, TX, to provide multiple validations of results about the mechanism of action of COTI-2. This testing supports a number of initiatives including: licensing efforts, publication of results in a leading journal, preparation for podium presentations at relevant industry forums, and Phase 1 human clinical trial design considerations. At January 31, 2014, the Company continued to meet with prospective licensing partners for its lead oncology compound, COTI-2.

As highlighted in Liquidity and Capital Resources, the Company is seeking additional funding that will enable the 28-day two-species toxicity studies and the IND submission for COTI-2 to be completed and filed with the FDA and provide operational runway for the Company. With the requisite funding, these studies and the submission to the FDA can be completed by mid-2014. The completion of the toxicity studies and the submission to FDA each represent significant risk reduction milestones for the compound and are expected to improve the Company's position in license negotiations.

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

R&D expenditures historically have been conducted with contract research organizations in the most cost effective manner considering the opportunity for refundable ITCs in identifying least cost, best value suppliers, and this is anticipated to continue as the Company works through the final testing on COTI-2 and its other projects. The Company received $64,649 in refundable ITC in Q3-F'14 related to its FYE'13 R&D expenditures. An additional $55,860 in refundable ITC is anticipated from Revenu Quebec related to FYE'13 in May 2014.

The Company's strategy to complement the development of COTI-2, and its ultimate licensing, by advancing other drug discovery projects along parallel tracks continued during Q3-FYE'14 with the Company's AML program and is expected to continue in fiscal 2014 within the Company's ability to finance such development. The Company had $31,000 in available government assistance to support this research in fiscal 2014 and recognized $16,098 in recoverable government assistance in Q3-FYE'14 (YTD-FYE'14 - $19,388).

Expenditures on G&A and S&M activities to the end of fiscal 2014 are expected to continue at current running rates reflected in the nine month results year to date. R&D expenditures are expected to increase in the fourth quarter. The Company obtained additional financing shortly after the third quarter ended, as discussed in Liquidity and Capital Resources, and subsequently signed a contract to complete the 28-day two-species toxicity studies that began in March 2014.

Expenditures on capital assets for the balance of fiscal 2014 are anticipated to be consistent with FYE 2013. Intangible asset expenditures, primarily on the Company's patent portfolio and computer software, are higher year to date than the prior year and are expected to continue this trend for the balance of the fiscal year (YTD-FYE'14 - $100,975, YTD-FYE'13 - $77,371). The Company plans to manage its activities within the cash resources available as it has in prior years.

Product Development Progress – Q3-FYE'14 and Future Outlook

The Company continued to make progress in developing its drug candidate pipeline during Q3-FYE'14 with primary focus on COTI-2 and secondary focus on the AML project.

a) COTI-2:

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

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

b) Acute Myelogenous Leukemia (AML):

AML is the result of multiple gene mutations that affect multiple cell signaling kinase pathways. With few exceptions, traditional therapies targeting a single abnormal kinase have produced disappointing long-term results. The Company has identified three compounds active in multiple leukemia cell lines including human cell lines with the FLT3 mutant kinase, which is the most frequent molecular mutation in AML.

The Company commenced experiments in an animal model of FLT3 mutant human AML using MV4-11 tumor cells in Q2-FYE'14 with the goal of selecting a lead and backup compound for continued

development towards the clinic and commercial out-licensing. Test results received in Q3-FYE'14 indicated all three to be active and one of the compounds to be particularly active in comparison to the other two compounds. The Company believes the xenograft results seen in these initial animal experiments can be improved through formulation of the compounds to improve solubility and bioavailability. Subsequent to Q3-FYE'14, the Company engaged a third party firm to conduct testing to determine possible formulation improvements that will be completed by the end of fiscal 2014. Further animal testing is likely to occur once these results are received.

c) Other Projects:

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

Collaborations and Co-Development Projects

As reported for Q2-FYE'14, all the collaborations had moved into the hands of the Company's collaborators. Their efforts under the collaboration agreements proceeded during Q3-FYE'14 but with limited information of significance to report on their progress at this quarter-end. Summary details for these collaborations and their progress during fiscal 2014 is set out below.

a) Anti-scarring Discovery Project with Western University:

In July 2012, the Company signed a collaborative research agreement (CRA) effective for two years from July 25, 2012, with Western University (Western) and a Western researcher located in London, Ontario, Canada. Under the agreement, the Company used its proprietary technology CHEMSAS® to discover and optimize novel drug candidates as potential therapies for minimizing central nervous system scarring following trauma or stroke. Seven compounds were provided to the researcher and Western for evaluation as leads for the cellular target in fiscal 2013. As previously announced in May 2013, two of the compounds provided under the CRA met the predetermined development criteria and Western was proceeding with further testing on the other compounds provided. At the Q3-FYE'14 quarter-end, Western was seeking additional financing through an international partner to move a number of the compounds into confirmatory animal testing.

b) Angiogenesis Discovery Collaboration with Delmar Chemicals Inc.:

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

The initial project targets angiogenesis inhibiting small molecules identified to be of potential interest in the Open Innovation Drug Discovery (OIDD) program. The Company completed the identification, profiling, and optimization of a library of compounds and sent these to DCI for their assessment in fiscal 2013. Following assessment, the optimized library of novel structures was submitted and successfully passed the OIDD programs initial computational screens focused on novelty, synthetic feasibility, and potential toxicity. Three compounds selected by COTI and DCI commenced synthesis in Q1-FYE'14 and two of these were completed in Q2-FYE'14, with the third one expected in early Q4-FYE'14. Once the third compound completes synthesis, the compounds will be submitted to the OIDD program for their lab testing.

c) Lead discovery project with multinational pharmaceutical company:

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

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

In Q1-FYE'14, the Company announced initial test results received from the Pharma indicated a number of the submitted compounds met or exceeded the initial project target objectives and further testing was ongoing. During Q2-FYE'14, the Pharma continued to evaluate the compounds through its assays but had not yet made a decision on which compounds to take into the second step of the project. The Company received guidance on those compounds of interest to the Pharma in Q3-FYE'14. Work to refine and optimize final candidates for the Pharma to evaluate in the second step of the project is currently underway. This work will not be completed until after the 2014 fiscal year-end, as synthesis of these new optimized compounds will be required.

Industry and Economic Risk Factors Affecting Performance

The biotechnology industry is regarded as high risk given the uncertain nature of developing drug candidates and limited access to capital. On the other hand, success in this industry can be highly rewarding. COTI operates in the discovery and preclinical stage of the drug development cycle. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecules discovered using the Company's drug discovery technology either for its

own account or in R&D collaboration agreements for others, and in utilizing the technology to provide profiling and screening services on a fee for service basis. The major industry and economic risk factors affecting realization of this potential in Q3-FYE'14 remain substantially unchanged from the analysis discussed at length in the Company's AIF filed in August 2012 and the risk factors discussed in the interim MD&A for Q1 and Q2-FYE'14 and the annual MD&A for FYE 2013.

The four risk categories having the greatest effect on the Company during Q3-FYE'14 and for the past year were:

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

Access to Capital

The Company continually monitors its cash resources to support its R&D programs in an effort to move its compounds, particularly COTI-2, as rapidly as possible through development. These efforts were highlighted under Liquidity and Capital Resources where the Company outlined the financial challenges hindering project development and efforts to generate the capital needed. If additional funding cannot be obtained, COTI may be required to delay, reduce, or eliminate one or more of its R&D programs or obtain funds through corporate partners or others who may require it to relinquish significant rights to its product candidates or obtain funds on less favourable terms than COTI would otherwise accept. COTI's success in obtaining future capital requirements will depend on many factors, such as establishing and maintaining investment industry relationships, collaborative partnering relationships, achieving a licensing agreement for COTI-2, and the general economic conditions and access to capital in the equity markets for biotechnology companies. Despite the Company's ongoing and historical financing efforts, there can be no assurance additional funding will be obtained.

Lack of Revenue

The revenue cycle for drug development is a long one; typically 5 to 10 years depending upon the point along development that monetization of the asset occurs. Since inception as a public company in October 2006, COTI has worked to develop relationships with prospective customers, and strived to obtain licensing and collaboration agreements for its own compounds and therapeutic targets of interest to partners. The continued development of COTI-2 and the nurturing of relationships with licensees concerning the strong scientific test results are critical to achieving a revenue realization stage. Accordingly, operating losses are expected to continue until upfront licensing, milestone and royalty payments are sufficient to generate revenues to fund continuing operations. COTI is unable to predict with any certainty when it will become profitable, or the extent of any future losses or profits.

Securing Adequate Licensing Agreements

The Company's ability to commercialize its products successfully will depend first, on meeting the scientific due diligence requirements of prospective customers and second, on its ability to negotiate satisfactory licensing terms with pharmaceutical or biotechnology organizations for preclinical compounds. While continued positive test results announced during Q3-FYE'14 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date. Licensing discussions during Q3-FYE'14 continued to find interest for preclinical stage deals for novel compounds or classes of compounds. This reflects the macro events occurring within the pharmaceutical industry such as: the blockbuster drugs that continue to come off patent protection; the need to find drugs to replace the revenues lost to generic competition and lower margins on the unprotected brand; and, the continued productivity challenges of the pharmaceutical industry in generating new compounds from their internal R&D. However, the concept of novel and first in class for a mechanism of action (MOA) of a drug candidate means that potential partners have limited scientific experience or knowledge in the subject MOA hence their level of due diligence is markedly higher. This also leads to a desire to see human test results to provide further confidence around the novel MOA. The outcome of such due diligence and further testing cannot be guaranteed to lead to a licensing agreement for COTI-2.

Uncertainties Related to Research

Like other biotech and pharmaceutical companies, COTI's research programs are based on scientific hypotheses and experimental approaches that may not lead to desired results. In addition, the timeframe for obtaining test results may be considerably longer than originally anticipated, or may not be possible given time, resources, and financial, strategic, and scientific constraints. Success in one stage of testing is not necessarily an indication that a particular compound or program will succeed in later stages of testing and development. It is not possible to guarantee, based upon studies in *in vitro* models and in animals, whether any of the compounds made for a therapeutic program will prove to be safe, effective, and suitable for human use. Each compound will require additional research and development, scale-up, formulation and extensive clinical testing in humans. COTI believes its CHEMSAS® process serves to mitigate or reduce this risk by virtue of profiling across many variables in identifying compounds with a high probability of successfully becoming drugs, however, its predictions remain a probability only and accordingly failure can occur. COTI's lead compound, COTI-2, continues to progress through preclinical testing and to perform as predicted, and is currently in the final preclinical two-species toxicity testing. Once successfully completed, the Company plans to file an investigational new drug submission to the FDA for the compound and be in a position to proceed to Phase 1 human trials.

Use of Non-GAAP Financial Measures

Management has included a non-GAAP financial measure, Capital Resources, to supplement information contained in the MD&A. This non-GAAP measure does not have any standardized meaning prescribed under IFRS and therefore it may not be comparable to similar measures when presented by other issuers. Capital Resources is defined and calculated by the Company as cash, cash equivalents and short-term investments. With high liquidity characteristics, management considers such investments as a readily available source of capital. This differs from IFRS disclosure where cash and cash equivalents are included in the Statements of Financial Position as cash and the Statements of Cash Flows is reconciled to this cash balance. Short-term investments are disclosed separately in the Statements of Financial Position and changes in short-term investments are disclosed separately in the Statements of Cash Flows in determining cash. Management believes the inclusion of short-term investments as part of Capital Resources provides more meaningful information with respect to the Company's liquidity. Table 12 sets out a reconciliation of the Company's calculation of Capital Resources from the amounts shown in the Statements of Financial Position of the comparable third quarter interim financial statements.

Table 12: Reconciliation to Capital Resources

	Q3-FYE'14	Q3-FYE'13
Cash and cash equivalents per statements of financial position	$ 461,445	$ 126,000
Short-term investments per statements of financial position	-	415,629
Capital resources	$ 461,445	$ 541,629

Changes in Accounting Policies

Details regarding the adoption of new accounting pronouncements in fiscal2014 and future accounting policy changes affecting fiscal 2014 based upon new accounting pronouncements are set out below.

1. Adoption of new accounting pronouncements

    a) Early adoption

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

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

(i) IFRS 11 Joint Arrangements:

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

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

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

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

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities. The disclosure requirements widely define interests as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. Disclosures required by this standard are included in note 10 to the April 30, 2013 annual financial statements.

(iii) IFRS 10 Consolidated Financial Statements:

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (amended 2011) survives as Separate Financial Statements, to only carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (amended 2008).

The Company assessed the impact of this amended standard and has determined there to be no impact on its financial statements.

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

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

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

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

b) Accounting policy changes affecting fiscal 2014 not adopted early

(i) IAS 19 – Employee Benefits:

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

(ii) IFRS 13 – Fair Value Measurement:

In May 2011, the IASB issued IFRS 13 – Fair Value Measurement (IFRS 13), which replaced the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures that enable users to assess the methods and inputs used to develop fair value measurements be disclosed in both the Company's interim and annual financial statements

commencing May 1, 2013. The Company determined that adoption of this pronouncement had no impact on its disclosures for the YTD-FYE'14 interim financial statements.

(iii) IAS 1 – Presentation of Financial Statements:

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

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

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

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

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

2. Future accounting policy changes

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

(i) IFRS 9 – Financial Instruments:

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