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

Fiscal 2017 – First Quarter
for the three months ended July 31, 2016

Table of Contents

Overview

The following Management Discussion and Analysis ("MD&A") is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the three months ended July 31, 2016 and has been prepared with all information available up to September 28, 2016. The MD&A is intended to assist readers in understanding the dynamics of the Company's business and the key factors underlying its financial results. The Audit Committee of the Company approved the content of this MD&A on September 28, 2016.

This analysis should be read in conjunction with the unaudited condensed interim financial statements (the "Interim Financial Statements") and notes thereto for the quarter ended July 31, 2016. 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 in this MD&A are expressed in Canadian dollars ("CAD") unless otherwise noted.

The Company's quarterly interim reports for fiscal 2016, the Annual Financial Statements, and additional supplementary historic information concerning the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.criticaloutcome.com.

Forward-looking Statements

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

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

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;
- The continued advancement and positive outcomes from the Company's Phase 1 clinical trial with COTI-2, the Company's lead oncology drug candidate, in gynecological cancers that was in progress at the July 31, 2016 quarter-end;
- An ability to further enhance and add features to the CHEMSAS® technology or incorporate advances in artificial intelligence technologies for internal and collaborative purposes;
- The ability to obtain patent protection for the Company's compounds and other intellectual property;
- An ability to attract and retain skilled and experienced personnel to support research development; and,
- An ability to establish preferred supplier relationships with reputable and reliable third party clinical research organizations.

Table 1: Forward-looking Statements

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Our Business	• Plans to further advance COTI-2 in the Phase 1 clinical trial in fiscal 2017 • Plans to establish collaborations to expand the applications of the CHEMSAS® technology • Plans to seek strategic collaborations to advance its pipeline • Plans to further develop ROSALIND™
Operational Progress and Outlook	• Plans to obtain additional funding • Intent to advance the Phase 1 clinical trial with MD Anderson and Northwestern University in fiscal 2017 • Pursuing new cancer indications for COTI-2 • Plans to conduct further testing on COTI-219 to position an IND filing in 2017 • Further development of the ROSALIND™ technology
Liquidity and Cash Resources	• Plans to seek additional cash resources • Plans to raise capital in the U.S. • Expectation of additional investments in patents and computer hardware and software
Foreign Exchange Exposure	• Expectation of exposure to currency fluctuations resulting from clinical trial costs being undertaken with U.S.-based investigators and institutions

MD&A Section Heading	Nature of Forward-looking Information Disclosed
Industry and Economic Risk Factors Affecting Performance	• Expectation of continued losses until a revenue transaction is secured • Need to negotiate and consummate future licensing and collaboration agreements for our lead program, pipeline assets and platform technology • Need to raise additional capital through different avenues • Risks associated with the outcome of the ongoing clinical trial
Changes in Accounting Policies	• The adoption in fiscal 2018 of new accounting standards issued by the International Accounting Standards Board

The Management of COTI considers the assumptions on which the FLS are based to be reasonable. Management cautions the reader that there are many risk factors, including those specifically discussed later in the MD&A, which are of particular importance to the assumptions above, and actual results could differ materially from those expressed or implied in the FLS and as such, undue reliance should not be placed on any individual FLS.

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 molecules, initially targeted at small cell lung cancer, that were identified by COTI using its drug discovery technology.

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

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

Our Business

COTI is a clinical stage biotechnology company built on a dynamic artificial intelligence ("AI") platform for drug development and the modeling of biological systems. Our corporate structure allows for strategic focus in the following areas:

a) COTI-2

COTI-2 is the Company's lead oncology drug compound, which received investigational new drug ("IND") status from the United States Food and Drug Administration ("FDA") in May 2015. A Phase 1 clinical trial with COTI-2 in gynecological cancers at the University of Texas, MD Anderson Cancer Center, commenced in December 2015.

Extensive preclinical studies demonstrated COTI-2's ability to restore mutant p53 function and thus induce cancer cell death in many common p53 mutations. COTI-2 is being developed as an oral treatment for solid tumors; it is easily synthesized and has good in vitro and in vivo efficacy against multiple human cancers including small cell lung, non-small cell lung, brain, cervical, colon, endometrial, head and neck, ovarian, pancreatic, and triple negative breast. We believe COTI-2's important protein target, low toxicity and combination effectiveness with standard agents in preclinical development, and potential for longer term outpatient therapy as an oral agent, supports a dramatic change in the treatment of susceptible cancers.

b) CHEMSAS® & Drug Candidate Pipeline

The Company's proprietary AI platform, CHEMSAS®, provides us with the opportunity to identify potential treatments for a broad range of serious diseases. Our predictive computer models identify compounds with a high probability of success with disease specific drug discovery through chemical optimization and preclinical testing. The technology is designed for small molecules, and as a drug candidate discovery engine can be applied to any disease target with a modest amount of information for the specific cellular target of interest for the disease.

The Company has created a pipeline of novel, proprietary, small molecules for specific therapy targets with high morbidity and mortality rates, which currently have either poor, and or, no effective therapies.

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. This service offering would provide prospective customers with an efficient, reasonably-priced approach for generating targeted discovery stage compounds while enhancing value to COTI and its shareholders from monetizing the underlying CHEMSAS® technology.

c) ROSALIND™

Currently in the validation phase of development, ROSALIND™ is a smart data platform for realizing the promise of personalized medicine for cancer patients everywhere. Using our proprietary programmable

computer simulation of cancer cell signaling, ROSALIND™ is designed to realize the therapeutic potential of the important information derived from increasingly accessible cancer gene mutation profiles. The goal of ROSALIND™ is to identify personalized treatment options based on the genetic profile of the patient's cancer and to provide these to the oncologist for consideration in treating their patient.

Operational Progress and Outlook

a) Operations

The Company's focus in the first quarter of fiscal 2017 was the continued progression of its Phase 1 clinical trial for the investigation of COTI-2 as a treatment in female patients with recurrent ovarian, fallopian tube, endometrial, or cervical cancer (the "Trial").

The Trial, identified as COTI2-101, is designed primarily to assess the safety and tolerability of COTI-2 and, by identifying a maximum tolerated dose ("MTD"), enable the determination of a recommended dose for the expansion phase of the trial as well as a recommended Phase 2 dose ("RP2D") for future Phase 2 clinical trials.

Patient dosing in the Trial commenced on February 15, 2016 as a single-arm, single-center, open-label, first-in-patient study of COTI-2, with the initiation of patient dosing at MD Anderson Cancer Center ("MDACC") in Houston, TX. During the quarter, on June 6, 2016, the Company announced, the addition of a second site at the Lurie Cancer Center at Northwestern University ("NWU"), in Chicago, IL. Adding this second site broadens the base of patients who can possibly qualify for the study, potentially allowing the overall trial to move forward on a faster basis than was expected with a single site.

Also during the quarter, on July 11, 2016, the Company announced that the dosing of all three patients in the third cohort had begun following the independent Dose Escalation Committee's review of the safety data from patients in the second cohort, and their unanimous approval to proceed with dosing of the third cohort.

Progression in the Trial through successive cohorts represents achievement of positive milestones, as the ability to continue through the dose escalation portion of the study indicates that potential toxicity seen for the drug in the patients was not consequential enough to prevent increasing to the next dose level.

While these are early days in this dose escalation Trial, the Company is encouraged by the test results to date and is looking forward to working in collaboration with MDACC and NWU to advance the Trial during the balance of the year.

During the quarter, the Company also continued its strategic efforts to broaden the number of oncology indications for which COTI-2 would be a valuable therapy. This included further discussions with other major research institutions in using COTI-2 for the treatment of patients with recurrent squamous cell head and neck cancer ("HNSCC") and Li-Fraumeni Syndrome ("LFS").

With respect to the Company's other molecule drug candidates, further testing was done in working toward a definitive understanding of the mechanism of action for COTI-219 and the Company expects this to be finalized toward the end of the second quarter.

The Company also continued development of its ROSALIND™ project during the quarter with the engagement of a project manager and advancements made in the development of a large scale validation study to build a 100 patient database reflecting evaluation of outcomes from the ROSALIND™ analysis and its recommendations.

b) Financing

Funding achievements for the quarter are highlighted in "Liquidity and Cash Resources" with the realization of net proceeds from the exercise of warrants of approximately $1,606,000. Additional financing will be required to fund operations through fiscal 2017 as the Company has a number of important objectives planned for the balance of fiscal 2017 to drive the business forward with the primary objective being the successful execution and progress of the COTI-2 Trial. This funding is expected to come from a combination of sources but primarily:

i. the exercise of options and warrants; and,
ii. private or public financings with an emphasis on accredited and institutional investors with a focus on U.S.-based investors due to the primary location of the Company's potential customers for its products and services.

The Company will also be looking at government funding, co-development project funding from interested partners, and a development partnership agreement for COTI-2 or one of our other collaboration assets.

Any delays in the progression of the COTI-2 Trial will delay the timing of cash outflows and accordingly affect the timing of additional financing requirements.

c) Strategic Reorganization

During the quarter, the Company completed its strategic organizational review culminating in the announcement on June 15, 2016, of the appointment of Alison Silva as the new President of the Company effective July 5, 2016. The strategic review was focused on how best to build the human resource capability of the Company in driving the Company forward with COTI-2 now in the clinic.

Under the reorganization, the Company divided the roles of President & CEO recognizing the additional skill sets, expertise, and senior management band width needed. Ms. Silva became responsible for the day-to-day operations of the Company including overseeing and managing its clinical trials, development programs, and regulatory activities, as well as heading up the corporate business development function. Dr. Danter retained his responsibilities as the CEO and the Chief Scientific Officer of the Company.

Ms. Silva's experience in driving products from early stage development through proof of concept studies for orphan indications combined with her expertise and understanding of the orphan drug development process are expected to add significant value in building the COTI-2 oncology program and broadening the initial clinical scope.

Analysis of Financial Results First Quarter Fiscal 2017

Summary financial information for the comparative first quarter periods ended July 31, 2016 and 2015 (Q1-FYE'17 and Q1-FYE'16) is set out in Table 2.

Revenue

There was no revenue generated for Q1-FYE'17 or the comparative period.

Expenses

As highlighted in Table 2, the expense increase of $428,081 for the comparable quarters was related primarily to an increase in Research and product development expense ("R&D Expense") of $315,483. General and administration expense also increased and these two functional expense category increases were partially offset by a decrease in Sales and marketing expense and an increase in Investment tax credits ("ITC") earned. Both the R&D Expense increase and the ITC increase reflect the impact of the increased expenditures for the COTI-2 Trial, which had not yet commenced in Q1-FYE'16.

Table 2: Summary Financial Information – First Quarter Comparison

	Q1-FYE'17	Q1-FYE'16	Change
Expenses (income):			
Research and product development	$ 614,205	$ 298,722	$ (315,483)
Sales and marketing	103,602	157,068	53,466
General and administration	653,697	455,054	(198,643)
Investment tax credits	(40,558)	(7,979)	32,579
	1,330,946	902,865	(428,081)
Loss before finance income (expense)	(1,330,946)	(902,865)	(428,081)
Finance income (expense):			
Interest income, net	12,133	2,101	10,032
Change in fair value of warrant liability	(1,052,470)	(108,576)	(943,894)
Foreign exchange gain	56,220	24,220	32,000
	(984,117)	(82,255)	(901,862)
Loss and comprehensive loss	$ (2,315,063)	$ (985,120)	$ (1,329,943)
Weighted average shares outstanding	146,907,788	120,374,350	
Loss per common share	$ 0.02	$ 0.01	

a) R&D Expense

Table 3 provides a breakdown of R&D expenses by major expense type for the comparable quarterly periods Q1-FYE'17 and Q1-FYE'16, respectively.

The quarterly R&D expense increase year over year was primarily due to an increase of $208,162 in Clinical trial expenses related to COTI-2. Approval to move ahead with the COTI-2 Trial was received from the FDA in the latter part of May in Q1-FYE'16. These expenses started to increase from this quarter until the actual dosing of patients commenced in February 2016 at which time the major costs associated with the patients began. The cost impact of such patient activities is thus reflected in Q1-FYE'17.

Table 3: R&D Expense – First Quarter Comparison

	Q1-FYE'17	Q1-FYE'16	Change
Clinical trial expenses	$ 226,087	$ 17,925	$ (208,162)
Synthesis and miscellaneous R&D expenses	78,311	18,756	(59,555)
In vivo/in vitro testing	72,894	44,450	(28,444)
	377,292	81,131	(296,161)
Salaries and benefits	169,351	133,218	(36,133)
Drug development consulting	9,181	54,626	45,445
Professional fees	6,371	6,901	530
Other	35,648	11,897	(23,751)
	597,843	287,773	(310,070)
Share-based compensation	16,362	10,949	(5,413)
Total	$ 614,205	$ 298,722	$ (315,483)

The increase in Synthesis and miscellaneous R&D expenses relates primarily to the timing of synthesis costs on the Company's MRSA library that represented 64% of these costs in Q1-FYE'17. The balance of this cost is attributed to manufacturing costs for the COTI-2 Trial drug.

The increase in In vivo/in vitro testing relates to further preclinical testing of COTI-2 and COTI-219. The studies on COTI-2 are targeted at deepening the understanding of the mechanism of action ("MOA") on p53 mutations and the other cellular pathways affected. Similarly, the studies of COTI-219 seek to provide clarity on the MOA to enable the Company to advance the compound in preclinical testing and commence preparing the IND application for human trials.

An increase in Salaries and benefits between the quarterly periods reflects salary increases to R&D personnel and an increase in staffing related to the addition of a ROSALIND™ project manager during Q1-FYE'17.

Drug development consulting decreased over the comparable quarterly periods primarily reflecting higher consulting costs in completing the IND filing and approval process with the FDA as the grant to proceed was received in May of Q1-FYE'16. There were no comparable costs for this in Q1-FYE'17.

An increase in Other expense relates primarily to higher travel costs for personnel related to the clinical trial, and clinical trial insurance costs that were not incurred in Q1-FYE'16.

b) G&A Expense

G&A expense increased $198,643 year over year with all expense categories increasing except for Amortization. The most significant increase occurred in Salaries and benefits with increases in Professional fees, Share-based compensation, and Corporate governance also of note.

Table 4 provides a breakdown of G&A expenses by major expense type for the comparable quarterly periods Q1-FYE'17 and Q1-FYE'16, respectively.

The Company undertook a strategic reorganization of the executive roles and responsibilities of the Chief Executive Officer and President as announced in June 2016. The division of these two roles and the appointment of a new President added considerable experience and capabilities to the management team. This change is reflected in the increase in Salaries and benefits and Share-based compensation expense incurred in the quarter.

Table 4: G&A Expense – First Quarter Comparison

	Q1-FYE'17	Q1-FYE'16	Change
Salaries and benefits	207,121	99,237	(107,884)
Professional fees	$ 157,616	$ 137,455	$ (20,161)
Amortization	56,473	81,995	25,522
Corporate governance	54,155	28,786	(25,369)
Marketing and travel	38,685	25,245	(13,440)
Other	13,753	2,993	(10,760)
Insurance	15,886	14,391	(1,495)
Rent	10,200	10,200	-
	553,889	400,302	(153,587)
Share-based compensation	99,808	54,752	(45,056)
Total	$ 653,697	$ 455,054	$ (198,643)

Salaries and benefits increased $107,884 primarily reflecting a provision for bonuses to the executive management team under the terms of their new employment agreements. Other contributors to this increase included; a higher allocation of the CEO's activities to G&A rather than R&D compared to the functional allocation rates in Q1-FYE'16, salary increases to employees, and additional salary costs associated with the new executive roles.

The CEO and President were also awarded share options under their compensation plans in July 2016 that resulted in an increase in Share-based compensation $45,056 higher than Q1-FYE'16. In addition, two directors were added to the Board during fiscal 2016 whose share-based compensation was not an expense in Q1-FYE'16.

Effective June 1, 2015, the Company decreased the amortization rate on its molecules following a review of their estimated life. The Q1-FYE'16 amortization expense thus reflected an additional month's amortization at a substantially higher rate than the current year quarter.

Corporate governance expense increased over the comparable quarter primarily related to U.S. legal expenses incurred in complying with U.S. securities filings for various securities issued in prior periods. Additional cost increases related to the engagement of a firm to provide corporate secretarial services, higher director fees paid in cash reflecting the increase in the number of directors, and a change in the mix of cash/share-based compensation that directors chose.

Increased Professional fees related primarily to an increase in legal fees and HR consulting on human resource activities for the strategic reorganization that occurred in the quarter as compared to the prior year quarter.

Other expenses increased primarily due to higher computer hardware and software costs, business development expenses for the ROSALIND™ technology recognized in the quarter that did not occur in Q1-FYE'16, and the write-off of $13,250 for the remaining unamortized capitalized costs of patents abandoned during the quarter.

c) S&M Expense

S&M expense decreased $53,466 in Q1-FYE'17 compared to Q1-FYE'16. Table 5 provides a breakdown of S&M expense by major expense type for the comparable quarterly periods Q1-FYE'17 and Q1-FYE'16, respectively.

Table 5: S&M Expense – First Quarter Comparison

	Q1-FYE'17	Q1-FYE'16	Change
Professional fees	$ 64,143	$ 96,782	$ 32,639
Marketing and travel	31,702	39,467	7,765
Salaries and benefits	7,547	8,137	590
Other	210	549	339
	103,602	144,935	41,333
Share-based compensation	-	12,133	12,133
Total	$ 103,602	$ 157,068	$ 53,466

The decrease in S&M expense related primarily to lower Professional fees of $32,639 as the Company engaged in a lower level of business development activities with third party consultants compared to Q1-FYE'16. As part of the strategic reorganization, more of the business development activities will be handled in-house by the President and this may also impact on the use of third party expertise in future periods.

The decrease of $12,133 in Share-based compensation reflects the awarding of share options to a consultant engaged in business development efforts in Q1-FYE'16 that did not recur in Q1-FYE'17.

d) Investment Tax Credits

ITC income increased $32,579 in Q1-FYE'17 compared to Q1-FYE'16 related to an increase in the eligible R&D expenditures that qualified for refundable ITCs in the quarter compared to Q1-FYE'16. This increase in eligible R&D expenditures reflects the higher R&D spending noted above.

e) Interest and Financing

The increase in interest income in Q1-FYE'17 compared to Q1-FYE'16, related primarily to the substantially higher cash, cash equivalents, and investments held by the Company during the quarter compared to Q1-FYE'16.

f) Change in fair value of warrant liability

The warrant liability must be revalued at each reporting period and for Q1-FYE'17 this resulted in the recognition of additional non-cash expense of $943,894 compared to Q1-FYE'16. The change in the assumptions for the Q1-FYE'17 period compared to Q4-FYE'16 were substantial as shown in Table 6 below. These significant changes in the quarterly assumptions had a major impact on the change in fair value of the warrant liability compared to Q4-FYE'16 and Q1-FYE'16.

Table 6: Key Assumptions of Warrant Liability Remeasurement

	Model Key Assumption	Q1-FYE'17	Q4-FYE'16
1	Estimated volatility	49.79 - 50.39%	55.92 – 56.28%
2	USD-CAD foreign exchange rate	1.3043	1.2556
3	Estimated life in years	2.81 – 2.88	2.96 -3.02
4	Market price in CAD	$0.66	$0.49
5	Exercise price in USD	$0.34	$0.34

g) Foreign Exchange Gain

The increased foreign exchange gain of $32,000 during the quarter compared to Q1-FYE'16 related primarily to the holding of USD cash that on translation at the quarter-end resulted in an unrealized holding gain from the change in the USD exchange rate since the April 30, 2016 year end. The higher USD cash resources relate to the closing of a USD $1.1m private placement in March of Q4-FYE'16.

Financial Results Two Year 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 [(1)]

FYE 2017	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(2,315,063)				(2,315,063)
Loss per common share	$ (0.02)			$ -	$ (0.02)

FYE 2016	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(985,120)	(938,860)	(637,176)	(2,363,271)	(4,924,427)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss	(970,796)	(946,204)	(949,503)	(946,683)	(3,813,186)
Loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.04)

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

The majority of the variation in the Company's operational expenses by quarter across the two years and quarterly year over year is explained by two functional expense categories, General and administration and Research and product development, as set out in Table 8. However, in the most recent two quarters, the non-cash expense item, Change in fair value of warrant liabilities, appearing in the finance income (expense) section of the financial statements has caused the significant increase in the loss reported. This fair value adjustment resulted in non-cash expense of $1,052,470 in Q1-FYE'17 and $965,869 in Q4-FYE'16 (see section (f) of the "Analysis of Financial Results First Quarter Fiscal 2017").

G&A expense peaked in the first quarter of FYE 2015 and declined through the balance of that year. R&D expense decreased sharply in the first quarter of FYE 2015 with the completion of the 28-day two-species toxicity testing for COTI-2 and then increased over the succeeding quarters as work continued toward the completion of an IND filing for COTI-2. This similar trend occurred in FYE 2016 with R&D expenses decreasing in the first quarter of FYE 2016 awaiting the approval of the IND filing with the FDA and then a gradual ramp up of costs as the planning of the clinical trial with the trial site and site investigator proceeded. This trend continued into Q1-FYE'17 as the clinical testing of patients was well underway having commenced in Q4-FYE'16.

Table 8: Selected Quarterly Expense Categories FYE 2017 [(1)]

FYE 2017	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 553,889				$ 553,889
Research and product development	597,843				597,843
Share-based compensation	116,171				116,171
Total of expense categories	1,267,903	-	-	-	1,267,903
Total expense for the quarter	$ 1,330,946	$ -	$ -	$ -	$ 1,330,946
Expense categories as a % of total expense	95.3%	-	-	-	95.3%

FYE 2016	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Year to Date
General and administration	$ 400,302	$ 446,267	$ 317,861	$ 479,325	$ 1,643,755
Research and product development	287,773	337,889	371,513	445,747	1,442,922
Share-based compensation	77,834	69,021	182,150	99,879	428,884
Total of expense categories	765,909	853,177	871,524	1,024,951	3,515,561
Total expense for the quarter	$ 902,865	$ 969,786	$ 964,069	$ 1,084,095	$ 3,920,815
Expense categories as a % of total expense	84.8%	88.0%	90.4%	94.5%	89.7%

FYE 2015	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 693,846	$ 512,570	$ 418,373	$ 434,705	$ 2,059,494
Research and product development	234,841	355,101	345,520	397,111	1,332,573
Share-based compensation	24,928	28,860	165,626	86,081	305,495
Total of expense categories	953,615	896,531	929,519	917,897	3,697,562
Total expense for the quarter	$ 1,018,907	$ 987,533	$ 980,702	$ 968,477	$ 3,955,619
Expense categories as a % of total expense	93.6%	90.8%	94.8%	94.8%	93.5%

(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 the functional expense categories in the financial statements has been removed from the functional disclosure and shown separately in this table.

On a total expense basis, these two categories declined as a share of overall costs in the first three quarters of FYE 2016 as S&M expense increased related to business development initiatives for COTI-2 and other potential revenue streams.

The variability in the comparable year over year quarters is primarily due to a higher level of spending in R&D activities throughout FYE 2016 and into FYE 2017, and for G&A expenses in the first two quarters of FYE 2015 compared to FYE 2017. The increase in Share-based compensation in the third quarter of each fiscal year reflects the timing of share option awards typically granted at the October Board of Directors meeting following the Annual General Meeting and does not correlate to the changes in the other expense categories during these years.

Liquidity and Cash Resources

The Company's cash resources include cash, cash equivalents, and investments. Table 9 summarizes the changes in cash resources for Q1-FYE'17 and Q1-FYE'16. At Q1-FYE'17, the Company had cash resources of $5,371,038 compared to $2,816,540 at Q1-FYE'16 reflecting an increase of $2,554,498. The difference in the cash resource balances year over year primarily reflects the cash proceeds from a private placement closed on March 29, 2016, for gross proceeds of USD $1.1m (CAD $1,452,331) and the exercise of warrants expiring in January, March, April, and June of 2016 that funded operations in the last quarter of fiscal 2016 and into fiscal 2017.

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

	Q1-FYE'17	Q1-FYE'16
Used in:		
Operating activities	$ (960,831)	$ (916,105)
Investing activities	(40,369)	(16,844)
Decrease in cash resources before financing activities	(1,001,200)	(932,949)
Proceeds from issuance of common shares and warrants	1,607,543	1,965,617
Costs of issuance common shares and warrants	(1,387)	(86,413)
Interest paid	(466)	(1,244)
Increase (decrease) in cash resources	604,490	945,011
Less: unrealized foreign exchange loss on cash resources	36,624	5,845
Cash resources - beginning of period	4,729,924	1,865,684
Cash resources - end of period	$ 5,371,038	$ 2,816,540

(1) See Use of Non-GAAP Financial Measures and Table 18.

Financing Activities

At the April 30, 2016 year-end, the Company advised that additional financing would be needed to fund operations and specifically support the completion of the COTI-2 Trial that is expected to run into calendar 2018. In this regard, the Company obtained net proceeds of $1,606,157 in financing during the quarter with all of this funding coming from the exercise of warrants.

a) During Q1-FYE'17

Common share purchase warrants and compensation warrants were exercised during the quarter for net proceeds of $1,559,709 as set out below. In addition, the Company realized net proceeds of $46,448 from the exercise of 107,000 USD $0.34 warrants that are accounted for as a warrant liability rather than equity.

Table 10: Summary of Warrant Exercises - Fiscal 2017

Warrant description	Number of warrants exercised	Gross proceeds	Share issuance costs	Net Proceeds
$0.22 compensation	194,110	$ 42,704	$ (110)	$ 42,594
$0.26 USD compensation	64,450	21,725	(155)	21,570
$0.28 common share	5,331,266	1,492,754	(916)	1,491,838
$0.315 compensation	12,000	3,780	(73)	3,707
	5,601,826	$ 1,560,963	$ (1,254)	$ 1,559,709

b) Subsequent to Q1-FYE'17

The Company realized gross cash proceeds of $114,125 from the exercise, on various dates subsequent to the quarter-end, of 385,768 share options held by directors and employees to support operations. Summary details of these exercises are set out in Table 11.

Table 11: Share Options Exercises Subsequent to Q1-FYE'17

Option exercise price	Number of options exercised	Gross proceeds
$0.25	32,109	$ 8,027
$0.30	353,659	106,098
	385,768	$ 114,125

Future Financing

The Company has 22,163,113 warrants outstanding as set out in Table 17, "Outstanding Share Information", at the date of this MD&A. All of these warrants are currently in-the-money as they were at FYE 2016. Certain of these warrants contain a trigger provision that provides the Company with the discretionary ability to accelerate the expiry date to a period of 21 days, if for any ten consecutive trading days during the unexpired term of the warrants (the "Premium Trading Days"), the closing price of the common shares on the TSXV equals or exceeds three times the exercise price set out in the warrant certificate. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. Any warrants not exercised during this reduced exercise period will expire.

To the extent these warrants are exercised will be a function of the market price of the Company's underlying common shares and investor perspectives on the opportunity for shareholder value creation over the investment time horizon for each individual investor. Management believes that continued achievement of milestones, particularly in the development of COTI-2, will be supportive of an increase in shareholder value and will provide the Company with an opportunity to realize funding from a portion

of these outstanding warrants in fiscal 2017. Table 12 sets out the warrants outstanding that have, and do not have, a trigger provision, and the potential financing available from their exercise.

Table 12: Summary of Outstanding Warrants and Potential CAD Proceeds

Price	Warrants	CAD Proceeds
Trigger	18,393,883	$ 7,764,415
No trigger	3,769,230	944,192
	22,163,113	$ 8,708,607

Table 13 sets out the market prices where the trigger price would be reached for those warrants that have an acceleration clause that would force exercise.

Table 13: Warrants with Accelerated Expiry Dates and Estimated Trigger Prices

	Exercise Price	Exercise Currency	# of Warrants	[(1)] Estimated Trigger Price	CAD Proceeds
Compensation Warrants	$ 0.29	CAD	162,811	$ 0.8700	$ 47,215
Compensation Warrants	$ 0.315	CAD	96,120	$ 0.9450	30,278
Compensation Warrants [(1)]	$ 0.26	USD	460,739	$ 1.0184	156,401
Warrants	$ 0.38	CAD	5,519,925	$ 1.1400	2,097,572
Warrants	$ 0.42	CAD	2,144,267	$ 1.2600	900,592
Warrants [(1)]	$ 0.34	USD	10,010,021	$ 1.3317	4,532,358
Totals			18,393,883		$ 7,764,415

Note: [(1)] These estimated trigger prices were calculated based upon the closing price of the USD-CAD exchange rate at July 31, 2016. These trigger prices will vary based upon fluctuations in this conversion rate.

As the extent and timing of warrant exercises as a source of financing is uncertain, the Company continues to look at alternative financing sources to support operations going forward and particularly the completion of the COTI-2 Trial that drives significant future revenue potential from COTI-2. The current focus in this regard is on private placements with accredited and institutional investors.

Investing Activities

Investing activities in Q1-FYE'17 totaled $40,369 consisting of the purchase of $7,510 in computer equipment (Q1-FYE'16 – nil), and $32,859 in patent costs (Q1-FYE'16 – $11,104). Investment in such items will continue into the future as the Company relies heavily on computing technology to run its CHEMSAS® process and ROSALIND™ technology, 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 Q1-FYE'17, the Company had 21 patents granted and 12 patents pending in various jurisdictions with a carrying value of $797,183.

The Company conducts periodic reviews of its tangible and intangible assets for impairment indicators, including its most recent analysis at July 31, 2016 to ensure the carrying value of these assets (equipment, molecules, patents, and computer software) are not impaired. During the quarter, the Company abandoned a patent for its COTI-001 AML compound in four European countries and recognized a net write-off of $13,250 for the remaining unamortized patent cost previously recorded for these patents.

Working Capital

The Company had Adjusted Working Capital at Q1-FYE'17 of $5,091,132 compared to $4,602,044 at FYE 2016 (see Table 19). The Company defines Adjusted Working Capital as the standard working capital calculation adjusted for non-cash liabilities. This definition is a non-GAAP financial measure and does not have a prescribed meaning under IFRS and therefore may not be comparable to similarly described measures when presented by other issuers. Details concerning the calculation of this working capital measure can be found under the discussion concerning Use of Non-GAAP Financial Measures.

Cash equivalents are invested in money market instruments with maturities of three months or less. The investments consist of guaranteed investment certificates and provincial government USD stripped bonds, which can be readily converted to cash. Details of these investments appear in Table 14.

Table 14: Summary of Investments

Investment description	Fiscal Year of Maturity	Effective interest rate	Cost	Unrealized Gain / (Loss)	Fair value
Guaranteed investment certificates	2017	0.95 - 1.4%	$ 1,615,000	$ 9,315	$ 1,624,315
	2018	1.40%	500,000	457	500,457
Canadian provincial government USD stripped bonds:					
Province of British Columbia	2018	1.04%	125,581	6,051	131,632
Province of British Columbia	2019	1.44%	125,623	6,531	132,154
Province of Manitoba	2020	1.82%	423,126	23,188	446,314
Total			$ 2,789,330	$ 45,542	$ 2,834,872

Current assets increased to $6,099,511 at Q1-FYE'17 from $5,431,410 at FYE 2016 for an increase of $668,101 primarily due to an increase in Cash Resources. Current liabilities increased $1,198,697 to $4,151,081 at Q1-FYE'17 from $2,952,384 at FYE 2016 primarily due to the accounting for the warrant liability that increased $1,019,684. 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 their carrying values.

The Company had commitments at the quarter-end to pay for the completion of work primarily under research and development contracts related to the COTI-2 Trial. Payment timing of clinical trial costs is subject to the actual timing of trial activities such as the enrollment of patients, completion of patient testing, and administration of drug, as well as the negotiated payment terms with the trial site. The Company currently expects the Trial to conclude in 2018. Summary details of the estimated timing of the Company's commitments are set out below.

Table 15: Contract Commitments

	Fiscal Years ending April 30			
	2017	2018	2019	Total
COTI-2:				
Clinical trial costs	$ 826,026	$ 1,103,620	$ 181,310	$ 2,110,956
Other preclinical	141,523	91,782	4,831	238,136
	967,549	1,195,402	186,141	2,349,092
Other molecules	76,278	-	-	76,278
Other non-R&D consulting contracts	97,446	-	-	97,446
Total	$ 1,141,273	$ 1,195,402	$ 186,141	$ 2,522,816

Off-Balance Sheet Arrangements

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

Foreign Exchange Exposure

The Company has historically had occasion to enter into R&D contracts denominated in foreign currencies. These contracts have primarily been in United States dollars ("USD") but have also included Euros ("EUR"), British pound sterling ("GBP") and Swiss Francs ("CHF") and, as a result, the Company has currency risk from fluctuations in exchange rates between the CAD and such currencies. Up to fiscal 2017, such exposure was not significant and the Company did not use derivative instruments to reduce its exposure to this foreign currency risk.

During Q1-FYE'17, as in prior periods, the Company's foreign exchange exposure was related primarily to the USD with some modest exposure to CHF. The Company raised USD $1.1m in financing on March 29, 2016, which provides some natural hedging against its future USD expenditures related to the COTI-2 Trial. These clinical trial costs will occur over the next two years and costs expected to be incurred in USD are in the range of USD $736,000 – $1,211,000.

The USD/CAD exchange rate remained volatile between July 31, 2016 (1.3056) and April 30, 2016 (1.2548). As a result of investing the proceeds of the March 2016 financing, the Company incurred an unrealized foreign exchange gain from these investments, which is a major part of the gain reflected at the quarter-end.

As for future exposure, the Company has warrants outstanding and exercisable at USD prices that could generate USD proceeds to the Company. The amount and timing of such exercise is not presently determinable. In addition, the Company has been focusing on U.S.-based investors for future financings that could provide USD funds and a further hedge for the Company's USD expenditures. Because of these exposures, variations in foreign exchange rates could cause some fluctuation in the Company's operating results and cashflow, however, management does not expect the changes in foreign exchange will have a material impact on operations.

The Company's exposure to foreign currency risk in its financial instruments based upon foreign currency amounts expressed in CAD at Q1-FYE'17 is set out in Table 16 below. Excluding the currency impact of the warrant liability, which is a liability not settled in cash, a 5% strengthening of the CAD against the USD at July 31, 2017 would have increase the Company's loss by approximately $56,000. A 5% weakening of the CAD against the USD would have an equal but opposite effect assuming all other variables remain constant.

Table 16: Foreign Exchange Balances Held

As at July 31, 2016				
	CAD	USD	Other	Total
Cash and cash equivalents	$ 1,861,762	$ 674,262	$ 142	$ 2,536,166
Investments	2,128,156	706,716	-	2,834,872
Other receivables	3,411	-	-	3,411
Accounts payable and accrued liabilities	(669,154)	(270,152)	(33,200)	(972,506)
Warrant liability	-	(3,142,702)	-	(3,142,702)
	$ 3,324,175	$ (2,031,876)	$ (33,058)	$ 1,259,242

Related Party Transactions

Material transactions with key personnel that occurred during the quarter were in the ordinary course of business and included:

a) an award of 1,500,000 stock options to each of two Executives under their employment contracts. The options have a five year life and are exercisable at a price of $0.70 representing the closing price of the Company's common shares on July 4, 2016 as reported on the TSX Venture Exchange the day prior to the award in accordance with the Company's Stock Option Plan. Half of the options are subject to time-based vesting and the other half vest upon the achievement of strategic milestone objectives; and,

b) the continued engagement of a human resource consulting firm that reports to the President of the COTI under a contract with agreed upon per diem payment terms. The President of the consulting firm is related to a director of the Company. Fees and expenses paid or accrued for services rendered in the quarter were $18,125 (July 31, 2015 – $5,306).

At July 31, 2016, there were directors' fees payable of $5,444 (July 31, 2015 – $1,580) and accrued salaries, bonuses, benefits, and outstanding vacation pay owing to Executives of $241,610 (July 31, 2015 – $82,743).

Outstanding Share Information

Outstanding share information at the close of business on September 27, 2016 is set out in Table 17.

Table 17: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	148,731,891	
Diluted [(1)]	180,827,556	
Weighted average outstanding [(2)]	147,517,364	
Common share warrants		
$0.42 warrants	2,144,267	Jun 28 - Jul 30/17
$0.315 compensation warrants	96,120	Jun 28 - Jul 30/17
$0.38 warrants	2,420,551	Mar 29/18
$0.26 warrants	769,230	Feb 4/19
$0.19 USD compensation warrants	3,000,000	Apr 11 - Jun 6/19
$0.34 USD warrants [(3)]	10,010,021	Oct 16 - Nov 24/19
$0.26 USD compensation warrants	460,739	Oct 16 - Nov 24/19
$0.38 warrants	3,099,374	Dec 18/19 - Feb 16/20
$0.29 compensation warrants	162,811	Dec 18/19 - Feb 16/20
	22,163,113	
Common share stock options		
$0.14 - $0.25	2,577,886	Oct 17/16 - Mar 19/20
$0.26 - $0.50	4,304,666	Sep 26/16 - Apr 25/21
$0.51 - $0.72	3,050,000	Jul 4/21 - Jul 16/21
	9,932,552	

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

[(2)] Weighted average shares outstanding calculated from May 1, 2016 to the close of business on Sep 27, 2016.

[(3)] See Use of Non-GAAP Financial Measures

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 has historically operated in the discovery and preclinical development stages of the drug development cycle but moved into the Phase 1 clinical stage during Q3-FYE'16 with the signing of a clinical trial agreement with MDACC in December 2015. 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.

The major industry and economic risk factors most significant to the Company during Q1-FYE'17 and for the year ahead are discussed below as follows:

1. going concern risk;
2. uncertainties related to research;
3. clinical trial risks;
4. lack of revenues;
5. securing adequate licensing agreements;
6. access to capital; and,
7. foreign currency exposure.

Going Concern Risk

The Company has formulated goals for fiscal 2017 to advance the Phase 1 testing of COTI-2 to enhance its attractiveness to potential licensees and to move other revenue initiatives and development projects forward as resources permit. For COTI, the material uncertainties discussed under "Liquidity and Cash Resources" and as specifically highlighted in note 3 of the Financial Statements 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, the Company is taking steps to obtain additional cash resources as described under Financing above. The Company has discretion with many of its expenditure activities and plans to responsibly manage these activities in FYE 2017 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that sufficient funding can be obtained that will enable the Company to alleviate the going concern risk in future periods.

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 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 (absorption, distribution, metabolism, and excretion) and pharmacokinetics, inability to increase the scale of manufacture, lack of 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 or other new computational 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 even at a very high probability there is an error rate such that failure can occur. Despite these uncertainties, COTI's lead compound, COTI-2, progressed through preclinical testing, received a grant to proceed to a Phase 1 clinical trial in Q1-FYE'16, commenced patient treatment early in Q4-FYE'16 and continued to progress in the Trial during Q1-FYE'17. This success to date was predicted by CHEMSAS®.

These uncertainties and related delays were experienced by COTI with its lead compound, COTI-2, during Q2 and Q3-FYE'16. Although the IND grant to proceed with the clinical trial was received on May 22, 2015, the internal review and approval process for the clinical trial agreement with MD Anderson proved to be a logistical challenge to navigate resulting in delays and revised target dates for actually commencing to treat patients. Despite these delays, COTI-2 continued to progress in the Phase 1 clinical trial in Q1-FYE'17. Success in this clinical trial will provide further support for the scientific validation of the CHEMSAS® technology platform's predictions but it is such delays that can affect the timing of achieving profitable operations and causes a continual need to seek financing.

Clinical Trial Risks

Clinical trials are very expensive, time-consuming, and difficult to design, implement, and successfully execute. There are many risks associated with clinical trials that are responsible for this, some of which include:

a) the extensive regulatory requirements of government authorities;

b) the rigorous requirements of clinical investigator institutions whose protocols are intended to protect the patient but also the investigating institution from liability associated with trial failures and compliance with government regulations;

c) the failure of trial compounds to achieve the targeted safety and efficacy endpoints of the trial during, and at completion of the trial;

d) the potential suspension of a clinical trial by regulatory officials at any time if it appears that patients are exposed to unacceptable health risks;

e) the substantial periods of time necessary to complete the trial that cannot be easily predicted or controlled due to unknown or unexpected events involving patients and other external factors such as; weather affecting a patient's ability to attend for dosing, or, statutory holidays affecting the start date of a cohort;

f) the potential for failure at any stage of the trial due to the occurrence of unacceptable toxicities or other unforeseen safety issues;

g) the potential for problems being encountered during the trial that cause the Company to repeat parts, or all of the trial, or even abandon the trial;

h) the occurrence of slower than expected rates of patient enrollment; and,

i) the inability to monitor trial participants receiving an oral treatment taken on an out-patient basis adequately, during or after dosing.

In summary, our clinical trial may fail to produce successful results or could be suspended due to unacceptable safety risks, which could cause our trial to fail and could then have severe consequences for the business.

Lack of 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 July 31, 2016, 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. While collaborative agreements on CHEMSAS® projects to discover compounds for some partners have been undertaken in the past, the Company has not yet entered into a licensing agreement for one of its compounds. 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 that is expected to be based upon having positive human test data for toxicity and efficacy. 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. Without generating revenues and positive cash flows the Company will continually need to seek additional financing until such time as profitable operations occur.

Securing Adequate Licensing Agreements

The Company's ability to commercialize its products successfully will depend on its ability to negotiate licensing agreements with biotech or Pharma companies for its compounds. This will first require meeting the scientific due diligence requirements of prospective customers. While continued positive test results for COTI-2 during the quarter and throughout fiscal 2016 generated positive feedback from potential licensees, these test outcomes have not translated into a contractual agreement to date.

Licensing discussions during Q1-FYE'17 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 MOA through test results in humans. Positive results in the Phase 1 human testing are expected to provide the risk reduction data that will make licensing attractive to potential licensees.

Industry reviews of pharmaceutical industry productivity in generating new compounds have not been favourable. This is based upon the high level of R&D spending by major pharmaceutical companies compared to their discovery of new compounds that go on to become approved drugs. Despite this industry performance, 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 Cash Resources" where the Company noted the continuing need to raise financing to support project development until a revenue event can provide sufficient operating cash flows to sustain the business. 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 that additional funding can be obtained.

Foreign Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the functional currency of the Company. The Company is also exposed to foreign currency risk as a result of financial assets, liabilities and investments being denominated in a foreign currency. For COTI this is primarily related to the USD but to a much lesser extent includes the Euro and Swiss franc. The effect of this risk on operations for Q1-FYE'17 was discussed at "Foreign Exchange Exposure". The Company's clinical trial is being conducted at U.S. sites under clinical trial agreements that require payment for these services in USD. Accordingly, the Company is exposed to foreign exchange risk on its payments for these services. The Company also holds USD investments whose values in CAD fluctuate with the underlying exchange rates and could affect the amount of CAD cash realized compared to the value of such investments as

determined at the Company's reporting dates. The Company does not currently formally hedge its exposure to fluctuations in foreign exchange rates.

Use of Non-GAAP Financial Measures

Management has included two non-GAAP financial measures, first, Cash Resources and second, Adjusted Working Capital, to supplement information contained in this MD&A. These non-GAAP measures do not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures when presented by other issuers.

a) Cash Resources

The Company looks at its available cash for operations on the basis of all Cash Resources, which is defined by the Company as the sum of its cash, cash equivalents, and investments. This differs from IFRS disclosure in the Company's financial statements where Cash is defined as cash and cash equivalents. The essential difference is the inclusion of investments in the Company's view of cash available for operations. Under IFRS, investments are accounted for by evaluating the intended purpose of the investment under an evaluation hierarchy. Investments with a maturity date greater than 90 days from the date of purchase are considered "held for trading" under the hierarchy if the intent is to sell or trade such investments and thus are not included in cash and cash equivalents. The investments at Q1-FYE'17 consisted of guaranteed investment certificates and provincial government stripped bonds. These investments can be readily cashed and the Company has treated these for accounting purposes as "held for trading" under the hierarchy given the expectation that they would be used in operations during the upcoming year when the need arose.

With high liquidity characteristics, management considers such investments as a readily available source of cash for operations. The decision by management to earn higher returns on cash balances by investing in securities readily converted to cash where the Company's cash flow projections determine such funds would not be needed in shorter time frames is not viewed by management as a basis for exclusion from its view of cash. Accordingly, management believes the inclusion of the investments as part of Cash Resources provides more meaningful information with respect to the liquidity of the Company and the cash available for operations.

Table 18: Reconciliation to Cash

	July 31, 2016		April 30, 2016	
	Cash per MD&A	Cash per Financial Statements	Cash per MD&A	Cash per Financial Statements
Cash and cash equivalents	$2,536,166	$2,536,166	$2,141,978	$2,141,978
Short-term investment	2,834,872	-	2,587,946	-
Cash	$5,371,038	$2,536,166	$4,729,924	$2,141,978

b) Adjusted Working Capital

The Company uses Adjusted Working Capital in its monitoring and review of cash required for operations. Adjusted Working Capital is defined as the standard working capital calculation adjusted for non-cash liabilities as set out in Table 19.

The standard working capital calculation results in a lower amount of working capital than what the Company measures as working capital. This happens as the accounting under IFRS for warrants issued with an exercise price denominated in USD requires these warrants to be accounted for as a warrant liability.

During FYE 2015, the Company completed a private placement financing of units in three tranches consisting of one common share and one warrant. The 10,177,760 warrants issued had an exercise price of USD $0.34. As this exercise price was not the functional currency of the Company, the warrants were required to be presented as a "warrant liability" on initial recognition, rather than equity if they had been issued in the functional currency of the Company. At each subsequent reporting date, the warrants are measured at their fair value and the change in fair value is recognized through profit or loss.

As the warrants are exercised by the warrant holders, the warrant liability is reduced by the fair market value of the warrants exercised, as valued on the date prior to the date of exercise, and the related amount is transferred to equity reflecting the accounting treatment had these warrants been issued originally with a CAD exercise price. For emphasis, this warrant liability represents warrants denominated with a USD exercise price which if exercised will bring in cash to the Company and accordingly represent a "liability not settled in cash".

Thus, the Company uses Adjusted Working Capital to reflect the reality of the Company's working capital position as it relates to liabilities where the Company has an actual legal expectation to issue cash in settlement.

Table 19: Adjusted Working Capital

	July 31, 2016	April 30, 2016
Amounts per financial statements:		
Current assets	$6,099,511	$5,431,410
Current liabilities	4,151,081	2,952,384
Working capital	1,948,430	2,479,026
Adjustment for non-cash items:		
Warrant liability	3,142,702	2,123,018
	$5,091,132	$4,602,044

Changes in Accounting Policies

a) Adoption of new accounting pronouncements:

The IASB issued new standards and amendments or interpretations to existing standards that were effective for the Company's fiscal year beginning May 1, 2016. Of the new or amended pronouncements, there was only one standard applicable to the Company's operations as described below.

(i) IAS 1, Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments were effective for annual periods beginning on or after January 1, 2016, and accordingly the Company adopted these amendments in its interim financial statements for the annual period beginning on May 1, 2016. These amendments did not require any significant change to current practice and did not have a material impact on these interim financial statements, but facilitate improved financial statement disclosures going forward.

b) Recent accounting pronouncements not yet adopted:

Certain pronouncements have been issued by the IASB or the International Financial Reporting Interpretations Committee that are mandatory for annual periods beginning subsequent to the April 30, 2017 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. Those new or amended standards that may affect the Company for the financial reporting year ended April 30, 2018, are set out below. The Company does not expect the amendments to have a material impact on the financial statements.

(i) IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS39 - Financial Instruments: recognition and measurement standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018. Management is assessing the impact of this standard on its financial statements.

(ii) IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers, which introduces a single model for recognizing revenue from contracts with customers except for leases, financial instruments, and insurance contracts. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer

and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services.

IFRS 15 also provides guidance related to the treatment of contract acquisition and contract fulfillment costs. The standard is effective for annual periods beginning on or after January 1, 2017 with retroactive application. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on May 1, 2017. The extent of the impact of adopting the standard has not yet been determined, as the Company has not generated revenues to date; however, the Company is evaluating the standard in light of the types of revenue that could be anticipated.