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

## For the fiscal year ended April 30, 2017

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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 year ended April 30, 2017 and has been prepared with all information available up to August 25, 2017. 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 Board of Directors of the Company approved the content of this MD&A on August 25, 2017.

This analysis should be read in conjunction with the Company's Annual Financial Statements and notes thereto for the year ended April 30, 2017. These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The Company's quarterly interim reports for fiscal 2017, 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 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 research and development initiatives;
- An ability to attract and retain skilled and experienced personnel to support research and development;
- The continued advancement and positive outcomes from the Company's Phase 1 clinical trial with COTI-2, the Company's lead oncology candidate, that was in progress at the fiscal 2017 year-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; 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 |
|---|---|
| Description of Business | • Plans to advance COTI-2 into the head and neck squamous cell carcinoma (HNSCC) arm of the Phase 1 clinical trial<br>• Plans to expand the clinical trial into other p53-mediated cancers<br>• Plans to file an investigational new drug (IND) application for COTI-219 in a KRAS-mediated cancer indication |
| Operational Progress and Outlook | • Plans to obtain additional funding<br>• Intent to conduct and complete the analysis of the dose-escalation phase of the COTI-2 Phase 1 Trial in gynecological malignancies<br>• Plans to initiate the HNSCC extension arm in the Phase 1 study<br>• Plans to expand the Trial into other p53-mediated cancers<br>• Plans to advance COTI-219 through various activities to filing an IND application<br>• Plans to continue advancing the synthesis of MRSA compounds<br>• Plans to continue preclinical development of SOX9 compounds<br>• Plans to continue the preclinical evaluation of AML compounds |
| Liquidity and Cash Resources | • Plans to seek additional cash resources<br>• Plans to raise capital in private placements with accredited and institutional investors<br>• Expectation of continued 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 investigator institutions |

| MD&A Section Heading | Nature of Forward-looking Information Disclosed |
|---|---|
| Industry and Economic Risk Factors Affecting Performance | • Going concern risk given an expectation of continued losses until a revenue transaction is secured and the need to raise funding<br>• Ability to raise additional capital through different avenues and mechanisms available to the Company<br>• Risks associated with the ongoing clinical trial and preclinical studies<br>• Ability to negotiate and consummate future licensing and collaboration agreements for its lead program, pipeline assets and platform technology |

Management cautions the reader that there are many risk factors, including those specifically discussed later in the MD&A, which are of particular importance and actual results could differ materially from those expressed or implied in the FLS. 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 clinical stage biotech company with offices in London, Ontario and Boston, Massachusetts. The Company was formed from an amalgamation on October 13, 2006, of Aviator Petroleum Corp., 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 amalgamated company adopted the name Critical Outcome Technologies Inc. and its common shares were listed for trading on the TSXV under the symbol COT on October 30, 2006.

On November 27, 2007, the Company acquired all the outstanding common shares in 3015402 Ontario Inc. operating as DDP Therapeutics ("DDP"). DDP was formed in early 2005 to develop a library of molecules originally identified by the Company using its drug discovery technology. On May 1, 2008, the Company amalgamated with this wholly owned subsidiary under the laws of the Province of Ontario.

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

Subsequent to April 30, 2017, the Company announced on June 23, 2017, that in accordance with the approval of the Company's shareholders obtained on October 13, 2016, the Board of Directors resolved to proceed with a consolidation of the Company's issued and outstanding common shares based upon a ratio of ten pre-consolidation common shares for one post-consolidation common share. The Company's common shares commenced trading on a consolidated basis on June 30, 2017.

## Description of Business

COTI is a clinical stage biopharmaceutical company advancing a pipeline of targeted therapies for the treatment of cancer and other unmet medical needs. COTI uses a proprietary drug discovery technology, CHEMSAS®, to accelerate the discovery and development of novel drug therapies, allowing it to build a pipeline of potential drug candidates faster and with a higher probability of success than traditional methods. The Company's lead clinical candidate, COTI-2, is an oral small molecule targeting p53, a tumor suppressor gene that is mutated in over 50% of all cancers. Extensive preclinical studies demonstrated COTI-2's ability to restore mutant p53 function and induce cancer cell death in a tumor-agnostic manner, with specific and non-toxic properties. Mutations of the p53 gene occur in more than 55% of all cancers with the initial therapeutic indication for COTI-2 in gynecologic cancers, which includes ovarian, cervical, and endometrial cancers, and where the incidence rate is up to 95% in ovarian cancer. COTI-2 was granted orphan drug status for the ovarian indication by the FDA. A Phase 1 clinical trial with COTI-2 in gynecological cancers (the "Trial") is currently in progress at the University of Texas, MD Anderson Cancer Center ("MDACC") in Houston, and the Lurie Cancer Center at Northwestern University ("NWU") in Chicago. On August 14, 2017 COTI announced that it had completed the dose escalation portion of the Trial in gynecological malignancies and initiated a Phase 1 expansion arm into patients with head and neck squamous cell carcinoma ("HNSCC"). The Company has further plans to expand the Trial into other p53-mediated cancers.

The Company declared its second clinical candidate, COTI-219, in October 2016. COTI-219 is a novel oral small molecule compound targeting the mutant forms of KRAS. KRAS gene mutations occur in up to 30% of all cancers, particularly lung, colorectal, pancreatic, and thyroid. COTI-219 targets the mutant forms of KRAS without inhibiting normal KRAS function, representing a tremendous unmet clinical need and a very desirable drug target. COTI-219 is currently undergoing testing in support of an investigational new drug ("IND") filing in fiscal 2018.

COTI has a second, complementary technology platform, ROSALIND™, designed to correlate the genetic profile of a patient's tumor with available potential drug/drug combinations. This technology is a smart data platform designed to realize the promise of personalized medicine, assisting, oncologists in prescribing a therapy tailored to the individual's tumor profile.

## Operational Progress and Outlook

### 1) Operations

The Company made substantial progress on a number of fronts during the year.

#### COTI-2: Phase 1 Clinical Trial

The major focus in fiscal 2017 was the continued progression of the Company's lead oncology compound, COTI-2, through its Phase 1 clinical trial for patients with advanced and recurrent gynecological malignancies at MDACC and NWU. The Phase 1 objectives are to assess the safety and tolerability of COTI-2 in these patients, and to establish a maximum tolerated dose ("MTD")

as the recommended dosage level for future Phase 2 clinical studies. Dosing of patients in the first cohort of the COTI2-101 Trial began in February 2016. An independent Dose Escalation Committee reviewed the safety data at the conclusion of each cohort as the Trial progressed. With its unanimous approval to proceed, subsequent cohorts commenced dosing at higher levels, ranging from 0.25 mg/kg in Cohort 1 to 1.7 mg/kg in Cohort 4. The Trial continued to progress as expected with the continued close collaboration of MDACC and NWU. On August 14, 2017, the Company announced it had completed the dose escalation portion of the Trial in gynecological malignancies and initiated an expansion arm into the HNSCC indication.

During the year, COTI continued its strategic focus to expand the indications for COTI-2. Along with its identified next indication of HNSCC, other potential indications include: Li-Fraumeni Syndrome ("LFS"); a p53 basket trial inclusive of several tumor types; and combination studies with currently approved oncology therapies.

**COTI-219**

The Company continued to advance COTI-219 through IND-enabling studies in fiscal 2017. In late Q4 2017, the Company finalized contractual negotiations with specialized medicinal manufacturing companies, engaged to conduct scale up and GMP manufacturing activities to produce drug product to support further preclinical and clinical development. Next steps are included in the fiscal 2018 objectives section below. Preparations for an IND submission for COTI-219 are progressing on schedule, with an anticipated filing date in early calendar 2018.

**DEVELOPMENT PIPELINE**

COTI continued to selectively invest time and effort into its pipeline of CHEMSAS®-tested molecules during fiscal 2017. Although no preclinical studies were conducted with the programs listed in the lower half of the figure below, these molecules remain active in the development pipeline.

*Figure 1: Development Pipeline*


**ROSALIND™**

Progress continued in the 100-patient validation study, albeit somewhat slower than anticipated due in part to the high cost for patients to obtain personalized genomic testing as input to the analysis. The Company continued to refine the platform throughout the validation process, amassing valuable knowledge correlating genetic mutations and drug candidates for various cell lines and xenografts, and improving processing speed.

## 2) Financing

Funding achievements for fiscal 2017 are highlighted in "Liquidity and Cash Resources" with the realization of approximately $1,846,000 in net proceeds from the exercise of stock options and warrants. Additional financing is required to fund operations and strategic priorities planned for fiscal 2018, with the primary objectives being the successful completion of the COTI-2 Trial and expansion of the Trial into other p53-related oncology indications, and the successful IND submission for COTI-219. In the event funding cannot be obtained on a timely basis, the Company will manage its activities within its available cash resources. This funding is expected to come from a combination of sources but primarily:

- private or public financings with an emphasis on accredited and institutional investors; and,
- the exercise of options and warrants.

Going forward, COTI will continue to seek additional financing opportunities from government funding, co-development projects from interested partners, and potential development partnership agreements for the Company's technology platforms, COTI-2, COTI-219 or another product in its development pipeline.

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.

**3) Leadership Transition**

The Company concluded its leadership succession plan in fiscal 2017 with the appointment of Alison Silva as President and CEO effective January 1, 2017. Subsequent to Ms. Silva's appointment, Dr. Wayne Danter continued to serve as Chief Scientific Officer for a transitional period prior to resigning his position and stepping down from the Board effective January 30, 2017. Subsequent to the year-end, Dr. Richard Ho, was appointed Chief Scientific Officer effective June 12, 2017.

**Key Strategic and Operational Objectives for 2018**

The Company has established the following strategic and operational objectives for fiscal 2018:

**1) COTI-2**

Key activities planned for fiscal 2018 for the continued development of COTI-2 will include:

- Complete the MTD dose-escalation phase of the Trial in gynecological malignancies;
- Evaluate endpoints including: the primary endpoint of assessing safety and tolerability; the secondary endpoints of evaluating pharmacokinetics, clinical activity and response duration of COTI-2; and exploratory objectives of determining the correlation between baseline molecular abberrations and activity, and evaluating pharmacodynamic markers of COTI-2 activity;
- Commence the extension arm of the Phase 1 gynecologic study in 10 ovarian cancer patients following the MTD determination in the dose-escalation Trial outlined in item a) above and following the analysis outlined in item b) above; and,
- Initiate a second extension/expansion arm of the COTI-2 Trial to include HNSCC patients, under a newly amended protocol. The Company will update investors with the details of this study once they become available.

**2) COTI-219**

Complete the IND-enabling studies for COTI-219, evaluate results and compile the IND application intended to be submitted to the FDA by early calendar 2018. Key activities planned for fiscal 2018 will include:

- Manufacture of the GMP drug substance and drug product;
- Finalize formulations for the IND-enabling toxicology studies and the Phase 1 clinical trial;
- Conduct studies to further understand the mechanism of action of COTI-219 and identify select oncology indications for the Phase 1 clinical trial;
- Select toxicology species for the IND-enabling studies through various pharmacokinetic and pharmacodynamics studies;

- Develop and validate bioanalytical methods for the detection of COTI-219 in plasma of animals and humans; and,
- Submit the IND application.

**3) Pipeline**

COTI will continue to selectively invest time and effort into its pipeline of CHEMSAS®-tested molecules during fiscal 2018. Activities planned for fiscal 2018 include:

- Continue the preclinical evaluation of our library of methicillin-resistant staphylococcus aureus ("MRSA") compounds. These compounds are designed to overcome the issue of bacterial resistance responsible for several difficult-to-treat infections in humans. This MRSA resistance relates to the beta-lactam antibiotics, which include the penicillins (methicillin, dicloxacillin, nafcillin, oxacillin, etc.) and the cephalosporins. Activities planned include:

  (i) Completing synthesis of key tricyclic intermediates and then the compounds using a novel synthetic strategy to overcome problems with initial synthetic routes; and,

  (ii) Conducting confirmatory *in vitro* and *in vivo* studies based upon the timing of completing the synthesis.

- Continue the preclinical evaluation of our library of SOX9 compounds to minimize central nervous system scarring after trauma or stroke. Results thus far indicate that two compounds were effective at SOX9 inhibition *in vitro*, and at least one COTI-SOX9 compound improved locomotor recovery in treated rats. Activities planned include:

  (i) Conducting confirmatory *in vitro* testing and *in vivo* spinal cord injury studies; and

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

- Continue our preclinical evaluation of our library of AML compounds to treat acute myelogenous leukemia. Activities planned include:

  (i) Optimizing formulation for the most active compounds in order to be able to further assess mechanism of action, and conduct efficacy and maximum tolerated dose studies in animals. This will enable the selection of the final compound for moving forward in further preclinical testing; and,

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

**4) Technology Platforms – CHEMSAS® and ROSALIND™**

- The Company will continue to maintain and test its CHEMSAS® platform to support discovery and development of novel drug therapies and evaluate the Company's library of small molecules. This includes identifying new biological and chemical assay datasets for possible incorporation and ensuring compatibility with operating system and third party software updates.
- Experimental ROSALIND™ assessments to suggest potential tumor sensitivities continue to be requested by cancer patients and their physicians internationally. Validation testing of ROSALIND™ will continue subject to securing sufficient funding to permit ongoing investment in this platform in fiscal 2018. Upon the successful completion of the validation study, COTI will develop a commercialization strategy to bring the technology to market.

## Selected Annual Information

Table 2 below sets out selected annual financial information for the Company for FYE 2017 and the two preceding fiscal years.

*Table 2: Selected Annual Financial Information*

| | FYE 2017 | FYE 2016 | FYE 2015 |
|---|---|---|---|
| Revenue | $ - | $ - | $ - |
| Loss before finance income (expense) | 6,939,672 | 3,920,815 | 3,853,825 |
| Finance income (expense) | 730,782 | (1,003,612) | 40,639 |
| Loss and comprehensive loss | 6,208,890 | 4,924,427 | 3,813,186 |
| Basic and diluted loss per common share | $ 0.42 | $ 0.39 | $ 0.32 |
| Dividends declared and paid | - | - | - |
| Total assets | $ 4,026,747 | $ 6,863,260 | $ 3,493,189 |
| Long-term accrued liability | $ 225,000 | $ - | $ - |

The Company had no compound-licensing, collaboration development or service contracts to generate revenue during the three-year period and accordingly there was no revenue recognized.

The "Loss before finance income (expense)" increased significantly over the three fiscal years but occurred primarily in FYE 2017 compared to FYE 2016. This increase related to Research and development expenses ("R&D") and General and administration expense ("G&A"). The R&D increase related primarily to the COTI-2 Trial that started in FYE 2016 and other development initiatives in FYE 2017. The G&A increase included compensation expense associated with a leadership succession plan that was executed in FYE 2017 and involved contractual transition payments to the former CEO, and a deepening of the management team. The trend in the three functional expense categories used by the Company, which includes Sales and marketing expense ("S&M"), are highlighted in Table 3.

*Table 3: Summary of Functional Expense Categories*

| Description | FYE 2017 | FYE 2016 | FYE 2015 |
|---|---|---|---|
| R&D | $ 2,725,499 | $ 1,503,385 | $ 1,355,508 |
| G&A | 3,943,820 | 2,000,043 | 2,342,054 |
| S&M | 414,583 | 530,782 | 285,929 |
| | $ 7,083,902 | $ 4,034,210 | $ 3,983,491 |

The variability in "Finance Income (expense)" over the three fiscal years reflects changes in the fair value of the warrant liability recorded in FYE 2015. The warrant liability related to the issuance of warrants denominated in USD that are required under IFRS to be accounted for as a current liability and then re-measured at each reporting date at their fair value. Changes in this fair value can be significant due to the changes in the underlying assumptions used in the fair value model. Those assumptions with the greatest variability include foreign exchange rates, the market price of the Company's shares, and market price volatility, which is affected by the estimated life of the warrants.

"Basic and diluted loss per common share" has been presented after giving effect to the consolidation of the Company's common shares that was effective on June 30, 2017, subsequent to the Company's April 30, 2017 year-end, based upon 1 post-consolidation share for every 10 pre-consolidation shares.

The swings in the trend for "Total assets" over the comparative fiscal years is attributable to the levels of cash and cash equivalents, investments, and prepaid expenses and deposits during the respective years. The trend for these balances is set out in Table 4. The major increase in prepaid expenses and deposits in FYE 2017 and FYE 2016 compared to FYE 2015 primarily relates to approximately $284,000 in deposits at FYE 2017 made under the clinical trial agreement and trial monitor agreements, which will be applied to invoices for future activities as the Trial progresses.

*Table 4: Key Components of Total Assets*

| Asset type | FYE 2017 | FYE 2016 | FYE 2015 |
|---|---|---|---|
| Cash and cash equivalents | $ 717,676 | $ 2,141,978 | $ 1,599,220 |
| Investments | 1,291,160 | 2,587,946 | 266,464 |
| Prepaid expenses and deposits | $ 524,884 | $ 546,802 | $ 90,626 |

The "Long-term accrued liability" represents an accrual for salary continuation payments resulting from the Company's leadership succession activities.

## Financial Review of Full Year Operations

A summary of the Company's financial results for the fiscal years ended April 30, 2017 and 2016, setting out the comparative changes between the years, appears in Table 5 below. For the fiscal year ended April 30, 2017 the Company incurred a loss of $6,208,890 or $0.42 per share compared to a loss of $4,924,427 for fiscal 2016 or $0.39 per share.

This financial information should be read in conjunction with the Company's 2017 Annual Financial Statements, which can be found on SEDAR at www.sedar.com.

*Table 5: Comparative Financial Results for the years ended April 30*

| | 2017 | 2016 | Change |
|---|---|---|---|
| **Expenses (income):** | | | |
| Research and product development | $2,725,499 | $1,503,385 | $ (1,222,114) |
| Sales and marketing | 414,583 | 530,782 | 116,199 |
| General and administration | 3,943,820 | 2,000,043 | (1,943,777) |
| Investment tax credits | (144,230) | (113,395) | 30,835 |
| | 6,939,672 | 3,920,815 | (3,018,857) |
| **Loss before finance income (expense)** | (6,939,672) | (3,920,815) | (3,018,857) |
| **Finance income (expense):** | | | |
| Interest and financing, net | 33,021 | 11,593 | 21,428 |
| Change in fair value of warrant liability | 631,050 | (965,869) | 1,596,919 |
| Foreign exchange gain (loss) | 66,711 | (49,336) | 116,047 |
| | 730,782 | (1,003,612) | 1,734,394 |
| **Loss and comprehensive loss** | $ (6,208,890) | $ (4,924,427) | $ (1,284,463) |
| Weighted average shares outstanding | 14,841,822 | 12,710,315 | |
| Loss per common share | $ (0.42) | $ (0.39) | |

Revenue

The Company does not currently have any compound-licensing, collaboration development or service contracts and accordingly there was no revenue generated in FYE 2017 or FYE 2016. The Company's increased spending on research and product development during fiscal 2017 related primarily to COTI-2, discussed below and in the "Operational Progress and Outlook", will position this compound and the other assets being developed for revenue events in future periods.

Expenses

Expenses increased $3,018,857 year over year. The increase reflected higher expense recognized in General and administration of $1,943,777 as well as higher spending in Research and product development of $1,222,114 that was partially offset by a decrease in Sales and marketing expense of $116,199. An increase in investment tax credits earned of $30,835 also provided some offset to the higher expenses.

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

The increase in R&D expense was primarily driven by development efforts in moving COTI-2 through the COTI-2 Trial. Other development areas of note included: preclinical work on a second clinical candidate, COTI-219, as well as other pipeline assets, including the MRSA compounds; and development work on a

clinical personalized oncology decision tool, ROSALIND™. Table 6 provides a breakdown of R&D costs by major expense type for FYE 2017 and FYE 2016.

*Table 6: R&D Expense – Comparative Years Ended April 30*

| | FYE 2017 | FYE 2016 | Change |
|---|---|---|---|
| Clinical trial expenses | $ 1,064,318 | $ 397,313 | $ (667,005) |
| In vivo/in vitro testing | 413,932 | 175,320 | (238,612) |
| Synthesis and miscellaneous R&D expenses | 198,299 | 158,406 | (39,893) |
| | 1,676,549 | 731,039 | (945,510) |
| Salaries and benefits | 728,419 | 562,353 | (166,066) |
| Other | 108,869 | 79,970 | (28,899) |
| Professional fees | 63,047 | 36,192 | (26,855) |
| Drug Development Consulting | 42,970 | 33,368 | (9,602) |
| | 2,619,854 | 1,442,922 | (1,176,932) |
| Share-based compensation | 105,645 | 60,463 | (45,182) |
| Total | $ 2,725,499 | $ 1,503,385 | $ (1,222,114) |

The $667,005 increase in Clinical trial expenses in fiscal 2017 reflects the ramp up in the COTI-2 Trial activities that began in fiscal 2016. Activities captured in the Clinical trial expense category include: trial supplies, trial drug manufacturing costs, fees from the clinical trial site investigators, and oversight costs from the contract research organization engaged to provide the trial monitoring, data capture, analysis, and related services.

In vivo/in vitro testing for FYE 2017 increased $238,612 year over year. All the testing in FYE 2017 and FYE 2016 related to development expenses associated with COTI-2 and COTI-219. Studies on COTI-2 were targeted at deepening the understanding of the mechanism of action ("MOA") on p53 mutations and other cellular pathways potentially affected by the drug and on new indications such as Li-Fraumeni Syndrome and Head and Neck Squamous Cell Carcinoma ("HNSCC"). Similarly, the studies of COTI-219 sought to provide clarity on its MOA and IND-enabling studies to support a regulatory submission targeted for the first quarter of calendar 2018.

Synthesis and miscellaneous R&D expenses increased $39,893 year over year with approximately 72% of the cost in FYE 2017 related to development work on the Company's MRSA compounds compared to 70% in FYE 2016. Synthesis work on COTI-219 was the other significant contributor to this expense in FYE 2017 and FYE 2016.

In support of the R&D development efforts, there were additions to personnel resulting in an increase in Salaries and benefits expense of $166,066 year over year. Staffing increased with the hiring of a ROSALIND™ Project Manager in the first quarter of FYE 2017 and a Director, Clinical Operations in the fourth quarter of FYE 2017. Recognition of the R&D team's efforts was also reflected in option awards in October 2016 to all R&D employees and in March 2017 to the Director, Clinical Operations as part of his compensation package.

Recruiting costs for new employees represent the majority of the increase in Professional fees.

The increase in Other expense year over year reflects travel costs associated with increased visits to the Trial sites and an increase in patent maintenance costs.

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

G&A expense increased significantly during FYE 2017 compared to FYE 2016, with the two primary components being Salaries and benefits and Share-based compensation. Table 7 provides a breakdown of G&A expense by major expense type for FYE 2017 and FYE 2016.

*Table 7: G&A Expense – Comparative Years Ended April 30*

| | FYE 2017 | FYE 2016 | Change |
|---|---|---|---|
| Salaries and benefits | $ 1,557,968 | $ 480,432 | $ (1,077,536) |
| Professional fees | 605,856 | 547,212 | (58,644) |
| Amortization | 249,447 | 216,243 | (33,204) |
| Marketing and travel | 193,966 | 132,163 | (61,803) |
| Other | 159,953 | 83,304 | (76,649) |
| Corporate governance | 88,927 | 81,387 | (7,540) |
| Rent | 81,014 | 40,800 | (40,214) |
| Insurance | 78,415 | 62,214 | (16,201) |
| | 3,015,546 | 1,643,755 | (1,371,793) |
| Share-based compensation | 928,274 | 356,288 | (571,986) |
| Total | $ 3,943,820 | $ 2,000,043 | $ (1,943,779) |

Salaries and benefits increased $1,077,536 and included costs associated with a planned leadership succession and a deepening of the management team. Pursuant to its leadership succession plan, the Company appointed a new President effective July 5, 2016, adding considerable industry experience and capabilities to the leadership team. The President was subsequently appointed President and CEO effective January 1, 2017, completing the succession event. On January 30, 2017, the former CEO and Chief Scientific Officer resigned his position with the Company and stepped down from the Board of Directors. Per his employment contract, the Company will pay salary continuation payments over a twenty-four month period and accrued $600,000 in salary expense during FYE 2017 in respect of these future payments. In addition to the leadership succession, a Director, Resourcing and Operations was added effective January 3, 2017, to bring previously outsourced human resources expertise in-house and supplement the operational capacity of the management team.

The Share-based compensation increase of $571,986 year over year related to: (i) retention-and milestone-based stock options granted to the new executives as part of their compensation packages; (ii) the addition of a director to the Board of Directors ("Board") with an associated increase in director compensation; and (iii) an increase in the general share based grant made to other G&A employees compared to the prior year. Details for Share-based compensation for the respective years are set out in Table 8.

*Table 8: Share-based Compensation in G&A – Comparative Years Ended April 30*

| Description | FYE 2017 | FYE 2016 | Change |
|---|---|---|---|
| Directors | $391,825 | $ 312,265 | $ (79,560) |
| Employees | 536,449 | 6,499 | (529,950) |
| Consultants | - | 37,524 | 37,524 |
| Total | $ 928,274 | $ 356,288 | $ (571,986) |

The increase of $58,644 in Professional fees year over year primarily reflects an increase in accounting support fees of $97,396 as well as increases in Legal and Human resources consulting partially offset by a decrease in Investor relations ("IR") costs. Table 9 provides a comparison of the major expense categories grouped in Professional fees for the past two years.

Accounting fees increased primarily due to the use of additional accounting resources to support the annual and quarter-end filings, income tax filings, consulting regarding U.S. tax filings, and support in the filing of the Company's scientific research and experimental development programs. The decrease in Investor relations expense reflects a transitional period associated with changing IR service providers during the year. The Legal expense increase reflects support on the leadership succession activities as well as employment contract guidance for new employees based in the U.S. Human Resources fees increased as the Company utilized the services of a consultant for a number of strategic initiatives during FYE 2017 prior to bringing the expertise in-house, with some of this consulting time also allocated to the Other professional fee category.

*Table 9: G&A Professional Fees*

| | FYE 2017 | FYE 2016 | Change |
|---|---|---|---|
| Audit and accounting | $ 199,140 | $ 101,744 | $ (97,396) |
| Investor relations | 179,710 | 300,643 | 120,933 |
| Legal | 137,711 | 99,144 | (38,567) |
| Human Resources | 53,682 | 24,500 | (29,182) |
| Other | 30,170 | 14,443 | (15,727) |
| Business development | 5,443 | 6,738 | 1,295 |
| Total | $ 605,856 | $ 547,212 | $ (58,644) |

The year over year increase in Amortization relates primarily to increased patent amortization due to three new patents granted during the year and the increased value of the patent portfolio, and computer software amortization related to the electronic data capture system used for the Trial.

Other expense increased $76,649 year over year primarily related to patent abandonment expense of $99,083 (FYE 2016 – $1,297) and a decrease of $40,826 in business expenses related to the ROSALIND™ project.

The increase of $61,803 in Marketing and travel expense in FYE 2017 reflects increased travel costs of approximately $15,000 and $47,000 in IR support services.

The increase in rent expense of $40,214 relates to the costs associated with office space in Boston, MA as the Company established a presence in the U.S. in August 2016.

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

The Company's S&M activities are related primarily to business development efforts related to the Company's pipeline of molecules, primarily COTI-2. Table 10 provides a breakdown of S&M expense by major expense type for FYE 2017 and FYE 2016.

The decrease of $116,199 year over year primarily reflects a decrease in Professional fees related to bringing business development activities in-house.

*Table 10: S&M Expense – Comparative Years Ended April 30*

| | FYE 2017 | FYE 2016 | Change |
|---|---|---|---|
| Professional fees | $ 238,070 | $ 354,054 | $ 115,984 |
| Marketing and travel | 146,647 | 146,815 | 168 |
| Salaries and benefits | 29,134 | 15,915 | (13,219) |
| Other | 732 | 1,865 | 1,133 |
| | 414,583 | 518,649 | 104,066 |
| Share-based compensation | - | 12,133 | 12,133 |
| Total | $ 414,583 | $ 530,782 | $ 116,199 |

The increase in Salaries and benefits reflects additional compensation paid to directors for consulting services on behalf of the Company beyond their normal director responsibilities.

Share-based compensation decreased compared to the prior year, as there were no share options awarded to a business development consultant in the current year.

d) Investment Tax Credits ("ITC")

The Company uses contract research organizations for many of its scientific studies that are located in various jurisdictions both in Canada and internationally. As a general rule, only expenditures incurred in Canada qualify for the federal scientific research and experimental development ("SRED") program. For a public company such as COTI, ITC earned under this program are not refundable but rather are eligible as a tax credit against taxes payable, and to the extent not used in the year earned can be carried forward to a future period. In addition to qualifying for the SRED program, the Company also can qualify for provincial ITC programs. Certain of these programs provide for refundable tax credits and COTI records ITC income earned related to such programs. The Company determined that its gross ITC eligible expenditures for SRED increased during FYE 2017 compared to FYE 2016 resulting in an ITC income increase of $30,835 year over year.

e) Interest and Financing Income

The increase of $21,428 in interest and financing income relates primarily to the substantially higher cash, cash equivalents, and investments held by the Company during FYE 2017 compared to FYE 2016.

*Table 11: Interest and Financing Expense*

| Year ended April 30 | 2017 | 2016 | Change |
|---|---|---|---|
| Interest income | $ 35,377 | $ 15,780 | $ 19,597 |
| Finance costs: | | | |
| Interest expense | - | (2,764) | 2,764 |
| Bank charges | (2,356) | (1,423) | (933) |
| | (2,356) | (4,187) | 1,831 |
| | $ 33,021 | $ 11,593 | $ 21,428 |

f) Change in Fair Value of Warrant Liability

The warrant liability is required to be measured at fair value in the Company's Statements of Financial Position. At each reporting date the liability is adjusted for any change in fair value using a currency translated option valuation model, which uses appropriate assumptions for the model at the respective valuation date. Table 12 below outlines the assumptions that resulted in a valuation decrease in the liability of $631,050. The primary drivers of the decrease were a decline in the market price of the Company's common shares and an increase in the USD-CAD exchange rate.

*Table 12: Key Assumptions - Warrant Liability Remeasurement*

| | **Model Key Assumption** | **FYE 2017** | **FYE 2016** |
|---|---|---|---|
| 1 | Estimated volatility | 71.53 - 72.11% | 55.92 - 56.28% |
| 2 | USD-CAD exchange rate | 1.3654 | 1.2556 |
| 3 | Estimated life in years | 2.46 – 2.57 | 2.96 -3.02 |
| 4 | Market price in CAD at April 30 | $0.38 | $0.49 |
| 5 | Exercise price in USD | $0.34 | $0.34 |

g) Foreign Exchange Gain

The swing of $116,047 from a foreign exchange loss to a foreign exchange gain year over year is primarily due to the closing of a private placement financing at the end of March 2016 where the USD $1.1m gross proceeds were invested in USD investments. The Company benefitted from holding these USD due to the increase in the USD-CAD exchange rate since the end of FYE 2016 (April 30, 2016, 1 USD = 1.2548 CAD, April 30, 2017, 1 USD = 1.3662 CAD).

## Analysis of Financial Results Fourth Quarter Fiscal 2017

Summary financial information for the comparative fourth quarter periods ended April 30, 2017, and 2016 (Q4-FYE'17 and Q4-FYE'16) is set out in Table 13. The Company incurred a loss of $1,907,114 or $0.13 per share in Q4-FYE'17 compared to a loss of $2,363,271 or $0.18 for Q4-FYE'16.

*Table 13: Summary Financial Information – Fourth Quarter Comparison*

| | Q4-FYE'17 | Q4-FYE'16 | Change |
|---|---|---|---|
| **Expenses (income):** | | | |
| Research and product development | $ 684,689 | $ 459,507 | $ (225,182) |
| Sales and marketing | 112,950 | 115,012 | 2,062 |
| General and administration | 1,067,301 | 565,444 | (501,857) |
| Investment tax credits | (28,288) | (55,868) | (27,580) |
| | 1,836,652 | 1,084,095 | (752,557) |
| **Loss before finance income (expense)** | (1,836,652) | (1,084,095) | (752,557) |
| **Finance income (expense):** | | | |
| Interest and financing, net | (1,377) | 3,991 | (5,368) |
| Change in fair value of warrant liability | (75,107) | (1,191,918) | 1,116,811 |
| Foreign exchange gain (loss) | 6,022 | (91,249) | 97,271 |
| | (70,462) | (1,279,176) | 1,208,714 |
| **Loss and comprehensive loss** | $ (1,907,114) | $ (2,363,271) | $ 456,157 |
| Weighted average shares outstanding | 14,915,844 | 13,389,099 | |
| Loss per common share | $ (0.13) | $ (0.18) | |

Revenue

There was no revenue generated for Q4-FYE'17 or the comparative period.

Expenses

As highlighted in Table 13, the expense increase of $752,557 for the comparable quarters was related to increases in expenses in two of the functional expense categories, R&D and G&A, and a decrease in ITC income during the quarter.

a) R&D Expense

Table 14 provides a breakdown of R&D expenses by major expense type for the comparable quarterly periods Q4-FYE'17 and Q4-FYE'16. The increase of $225,182 in R&D expense quarter over quarter is primarily attributable to four expense categories.

An increase of $54,590 in Clinical trial expenses year over year relates to the heightened activity in the Trial during the comparable periods. The dosing of patients had just commenced in Q4-FYE'16 at one

trial site compared to the Trial having advanced to the fourth cohort at two trial sites through Q4-FYE'17.

*Table 14: R&D Expense – Fourth Quarter Comparison*

| | Q4-FYE'17 | Q4-FYE'16 | Change |
|---|---|---|---|
| Clinical trial expenses | $ 231,164 | $ 176,574 | $ (54,590) |
| In vivo/in vitro testing | 74,355 | 64,760 | (9,595) |
| Synthesis and miscellaneous R&D expenses | 105,738 | 43,621 | (62,117) |
| | 411,257 | 284,955 | (126,302) |
| Salaries and benefits | 168,637 | 134,448 | (34,189) |
| Other | 30,214 | 22,279 | (7,935) |
| Professional fees | 51,006 | 4,065 | (46,941) |
| | 661,114 | 445,747 | (215,367) |
| Share-based compensation | 23,575 | 13,760 | (9,815) |
| Total | $ 684,689 | $ 459,507 | $ (225,182) |

Synthesis and miscellaneous R&D expenses increased $62,117 year over year related primarily to work on three initiatives; approximately 50% was attributed to the MRSA compounds, and approximately 25% was attributed to each of COTI-2 and COTI-219.

The increase in Salaries and benefits between the quarterly periods includes the addition of a ROSALIND™ Project Manager in Q1-FYE'17 and a Director, Clinical Operations in Q4-FYE'17.

The increase in Professional fees in the quarterly comparison resulted from recruiting costs associated with the Director, Clinical Operations and costs related to recruitment efforts for the Chief Scientific Officer position, which was filled in the first quarter of fiscal 2018.

b) G&A Expense

G&A expense increased $501,857 year over year with the majority of the difference occurring in Share-based compensation and Salaries and benefits, which increased $239,741 and $155,361, respectively compared to Q4-FYE'16. Increases were also incurred in Professional fees, Other expense, Amortization, and Rent with some offset to these increases from a decrease in Corporate governance expense.

Table 15 provides a breakdown of G&A expenses by major expense type for the comparable quarterly periods Q4-FYE'17 and Q4-FYE'16, respectively.

The increase in Salaries and benefits and Share-based compensation in the comparative year over year quarters reflects the execution of the leadership succession plan and broadening of the management team as discussed under the "Financial Review of Full Year Operations".

*Table 15: G&A Expense – Fourth Quarter Comparison*

| | Q4-FYE'17 | Q4-FYE'16 | Change |
|---|---|---|---|
| Salaries and benefits | $ 266,199 | $ 110,838 | $ (155,361) |
| Professional fees | 167,806 | 124,826 | (42,980) |
| Other | 105,479 | 63,497 | (41,982) |
| Amortization | 83,506 | 50,673 | (32,833) |
| Promotion and travel | 40,385 | 42,748 | 2,363 |
| Rent | 28,794 | 10,200 | (18,594) |
| Corporate governance | 25,725 | 62,136 | 36,411 |
| Insurance | 23,547 | 14,407 | (9,140) |
| | 741,441 | 479,325 | (262,116) |
| Share-based compensation | 325,860 | 86,119 | (239,741) |
| Total | $ 1,067,301 | $ 565,444 | $ (501,857) |

Other G&A expense changes included:

- An increase in Professional fees primarily related to additional accounting resources supporting the annual financial filings activities and ITC review and preparation services for FYE 2017.
- An increase in Other expense relating primarily to patent abandonment expense of $85,833 in Q4-FYE'17 offset by lower business expenses recognized for the ROSALIND™ project, which totaled $50,351 in Q4-FYE'16.
- The increase in Amortization relates primarily to increased patent amortization as a result of three new patents granted during the year, the increased value of the patent granted portfolio following transfer of patent pending costs, and computer software amortization related to the electronic data capture system used for the Trial.
- The increase in Rent expense in the quarterly comparisons is due to establishing a Boston office in August 2016.
- Corporate governance fees decreased $36,411 year over year for the comparative periods reflecting lower director fees paid in cash, a decrease in U.S. legal fees incurred to comply with U.S. securities filings, and a reduction in IR support software expense.

c) S&M Expense

S&M expenses decreased $2,062 in Q4-FYE'17 compared Q4-FYE'16. Table 16 provides a breakdown of S&M expense by major expense types for the comparable quarterly periods Q4-FYE'17 and Q4-FYE'16, respectively.

*Table 16: S&M Expense – Fourth Quarter Comparison*

| | Q4-FYE'17 | Q4-FYE'16 | Change |
|---|---|---|---|
| Professional fees | $ 54,884 | $ 82,730 | $ 27,846 |
| Marketing and travel | 44,609 | 32,084 | (12,525) |
| Salaries and benefits | 13,338 | - | (13,338) |
| Other | 119 | 198 | 79 |
| Total | $ 112,950 | $ 115,012 | $ 2,062 |

The decrease in Professional fees of $27,846 for the quarterly comparison relates to bringing business development activities in-house during fiscal 2017.

Overall Marketing and travel expenses increased as highlighted in G&A Expense with an increase in the quarterly comparison of $12,525 being reflected in S&M expense. This increase reflects the focus on in-house business development activities during fiscal 2017.

The increase of $13,338 in Salaries and benefits reflects per diem fees paid to directors of the Company in support of extensive business development efforts beyond the normal director duties incurred in Q4-FYE'17.

d) Investment Tax Credits

ITC income decreased by $27,580 in Q4-FYE'17 compared to Q4-FYE'16 related to a decrease in the eligible R&D expenditures that qualified for refundable ITC. This decrease in qualified expenditures is a function of the timing of the Company's testing activities, the location of such testing, and the extent of eligible internal labour costs.

e) Change in fair value of warrant liability

As noted in the "Financial Review of Full Year Operations" the warrant liability must be revalued at each reporting period. The variability in the quarterly assumptions for Q4-FYE'17 compared to the prior quarters in FYE'17 were substantial as shown in Table 17 below. Of note, the Company moved to using weekly volatility for Q4-FYE'17 compared to a monthly basis in the earlier quarters of the year and in fiscal 2016. This change reflected the lower estimated average life at Q4-FYE'17 and the corresponding impact on the number of statistical data points available when using a monthly approach. These changes in the quarterly assumptions had a major impact on the change in fair value of the warrant liability recorded at each quarter end.

Table 17: *Key Assumptions - Warrant Liability Remeasurement*

| | Model Key Assumption | Q4-FYE'17 | Q3-FYE'17 | Q2-FYE'17 | Q1-FYE'17 |
|---|---|---|---|---|---|
| 1 | Estimated volatility | 71.53 – 72.11% | 43.62 – 45.16% | 48.07 – 50.39% | 49.79 - 50.39% |
| 2 | USD-CAD foreign exchange rate | 1.3654 | 1.3031 | 1.3408 | 1.3043 |
| 3 | Estimated life in years | 2.46 – 2.57 | 2.68 – 2.78 | 2.84 – 2.94 | 2.81 – 2.88 |
| 4 | Market price in CAD | $0.38 | $0.45 | $0.55 | $0.66 |
| 5 | Exercise price in USD | $0.34 | $0.34 | $0.34 | $0.34 |

f) Foreign Exchange Gain (Loss)

The foreign exchange gain reported in Q4-FYE'17 of $6,022 compared to the loss of $(91,249) at Q4-FYE'16 relates primarily to the difference in the level of USD cash equivalents and investments held at the end of each quarter (Q4-FYE'17 – USD $48,533, Q4-FYE'16 – USD $1,035,628). This occurred as the Company closed a private placement financing in March 2016 for gross proceeds of $1.1m USD and retained a portion of this in USD cash equivalents and investments. As a result of holding these USD investments, the Company recorded an unrealized foreign exchange translation loss due to the decline in the USD-CAD exchange rate between the date of the private placement closing and the April 30, 2016 reporting date (April 30, 2016, 1 USD = 1.2548 CAD, March 29, 2016, 1 USD = 1.3203 CAD).

## Financial Results Two Year Quarterly Summary

Table 18 summarizes the financial results of the Company by quarter for the past two fiscal years.

*Table 18: Summary of Quarterly Financial Results*

| FYE 2017 | Q1 31-Jul | Q2 31-Oct | Q3 31-Jan | Q4 30-Apr | Full Year |
|---|---|---|---|---|---|
| Revenue | $ - | $ - | $ - | $ - | $ - |
| Loss | (2,315,063) | (748,286) | (1,238,427) | (1,907,114) | (6,208,890) |
| Loss per common share [(1)] | $ (0.16) | $ (0.05) | $ (0.08) | $ (0.13) | $ (0.42) |

| 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 [(1)] | $ (0.09) | $ (0.07) | $ (0.05) | $ (0.18) | $ (0.39) |

[(1)] The Loss per common share calculated is for both basic and diluted after giving effect to the consolidation of the Company's common shares on June 30, 2017.

Two functional expense categories, General and administration and Research and product development, as set out in Table 19 explain the majority of the variation in the Company's operational expenses by quarter across the two years and quarterly year over year.

*Table 19: 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 | $ 667,165 | $ 1,053,052 | $ 741,441 | $ 3,015,547 |
| Research and product development | 597,843 | 716,495 | 644,402 | 661,114 | 2,619,854 |
| Share-based compensation | 116,171 | 281,847 | 286,466 | 349,435 | 1,033,919 |
| Total of expense categories | 1,267,903 | 1,665,507 | 1,983,920 | 1,751,990 | 6,669,320 |
| Total expense for the quarter | $ 1,330,945 | $ 1,734,614 | $ 2,037,461 | $ 1,836,652 | $ 6,939,672 |
| Expense categories as a % of total expense | 95.3% | 96.0% | 97.4% | 95.4% | 96.1% |

| 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% |

[(1)] The presentation this table does not conform to the functional expense 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.

G&A expense was relatively stable during fiscal 2016 with some variability around the quarterly average expense of approximately $410k and then increased during FYE 2017 primarily related to leadership succession and other additions to the management team as described above.

R&D expense increased gradually starting in the first quarter of FYE 2016 following the FDA approval to commence the COTI-2 Trial as costs for the planning of the Trial with the trial site and site investigator proceeded into the fourth quarter of fiscal 2016 when patient dosing commenced. This rising expense trend continued into FYE 2017 and leveled off in the last few quarters with the escalation phase of the Trial progressing at a consistent pace.

A significant increase also occurred in Share-based compensation during FYE 2017. This primarily reflected the use of milestone- and retention-based stock option awards in compensation plans related to the addition of senior personnel.

On a total expense basis, these three categories increased as a portion of overall costs during FYE 2017 from 89.7% to 96.1%.

In addition to these categories, the non-cash expense item, Change in fair value of warrant liabilities, which appears in the Finance income (expense) section of the Financial Statements, is a primary factor

in the significant swings in the loss reported over the two years. See section (e) of the "Analysis of Financial Results Fourth Quarter Fiscal 2017" for more information.

## Liquidity and Cash Resources

The Company's cash resources include cash, cash equivalents, and investments. Table 20 summarizes the changes in cash resources for FYE 2017 and FYE 2016. At FYE 2017, the Company had cash resources of $2,008,836 compared to $4,729,924 at FYE 2016 reflecting a decrease of $2,721,088. The difference in the cash resources balances year over year primarily reflects the greater amount of financing the Company obtained in FYE 2016 through private placements, warrant exercises and option exercises. Cash proceeds from these sources in FYE 2016 were $6,725,263 compared to $1,848,791 in FYE 2017.

*Table 20: Summary of Changes in Cash Resources* [(1)]

| | FYE 2017 | FYE 2016 |
|---|---|---|
| Used in: | | |
| Operating activities | $(4,478,490) | $ (3,585,701) |
| Investing activities | (223,884) | (282,956) |
| Decrease in cash resources before financing activities | (4,702,374) | (3,868,657) |
| Proceeds from issuance of common shares and warrants | 1,802,212 | 6,697,921 |
| Costs of issuing common shares and warrants | (2,731) | (119,289) |
| Proceeds from settlement of warrant liability | 46,579 | 27,342 |
| Costs of issuing stock options | (19,246) | - |
| Investment tax credit recoveries | 128,749 | 116,408 |
| Interest paid | (2,356) | (4,187) |
| Increase (decrease) in cash resources | (2,749,167) | 2,849,538 |
| Less: unrealized foreign exchange loss on capital resources | 32,974 | 19,145 |
| unrealized loss on market value of investments | (4,895) | (4,443) |
| Cash resources - beginning of period | 4,729,924 | 1,865,684 |
| Cash resources - end of period | $ 2,008,836 | $ 4,729,924 |

(1) See Use of Non-GAAP Financial Measures and Table 32

Financing Activities

### 1) During FYE 2017

a) Warrant Exercises

The Company realized cash for operations of $1,559,708 from the exercise of common share purchase warrants and compensation warrants as summarized in Table 21 below.

*Table 21: Summary of Fiscal 2017 Warrant Exercises*

| Warrant description (1) | Number of warrants exercised | Gross proceeds | Net warrant transfer | Net Proceeds |
|---|---|---|---|---|
| $0.22 compensation | 194,110 | $ 42,704 | $ 18,829 | $ 42,594 |
| $0.26 USD compensation | 64,450 | 21,725 | 10,525 | 21,570 |
| $0.28 common share | 5,331,266 | 1,492,753 | 243,011 | 1,491,837 |
| $0.315 compensation | 12,000 | 3,780 | 1,217 | 3,707 |
| | 5,601,826 | $ 1,560,962 | $ 273,582 | $ 1,559,708 |

(1) Warrant prices are based upon the prices in effect at the time of the exercises which were prior to the consolidation that occurred subsequent to April 30, 2017.

The Company also realized net proceeds of $46,448 from the exercise of 107,000 warrants whose exercise price is denominated in USD and that are accounted for as a warrant liability prior to exercise.

b) Share Option Exercises

A final source of cash during the year came from the exercise of 812,312 share options for net cash proceeds of $239,903 as summarized in Table 22 below.

*Table 22: Summary of Fiscal 2017 Share Option Exercises*

| Exercise Price (1) | Number of options exercised | Gross proceeds | Share issuance costs | Net Proceeds |
|---|---|---|---|---|
| $ 0.25 | 48,897 | $ 12,224 | $ (370) | $ 11,854 |
| $ 0.30 | 763,415 | 229,025 | (976) | 228,049 |
| | 812,312 | $ 241,249 | $ (1,346) | $ 239,903 |

(1) Option exercise prices are based upon the prices in effect at the time of the exercises which were prior to the consolidation that occurred subsequent to April 30, 2017.

**2) <u>Future Financing</u>**

The Company had 22,163,113 warrants outstanding at the close of business on April 30, 2017. On June 23, 2017, the Company announced that, in accordance with the approval of the Company's shareholders obtained on October 13, 2016, the Board of Directors resolved to proceed with a consolidation of the Company's issued and outstanding common shares based on ten pre-consolidation common shares for one post-consolidation common share (the "Consolidation"). The Consolidation was subject to the approval of the TSX Venture Exchange and upon approval, the Company amended its organizational documents on June 29, 2017. The Company's common shares commenced trading on a consolidated basis on June 30, 2017.

In addition to the consolidation of the Company's common shares, the Company's outstanding common share purchase warrants and share options were subject to adjustment as outlined under the terms of their respective security agreements. For both common shares and common share purchase warrants, all fractional post-consolidation shares were rounded to the next lowest whole number if the first decimal place was less than five, and rounded to the next highest whole number if the first decimal place was five or greater. For share options where this calculation resulted in a fractional number of common shares, the number to be purchased was rounded down to the nearest whole number as directed by the Share Option Plan.

Table 31, Outstanding Share Information, sets out the outstanding share information at the date of this MD&A after giving effect to the consolidation. None of these warrants are currently in-the-money. 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 1.3 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 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 2019. Table 23 outlines the potential financing available from the exercise of outstanding warrants categorized by whether they have a trigger or not.

*Table 23: Summary of Outstanding Warrants and Potential CAD Proceeds*

| Price | Warrants (1) | CAD Proceeds |
|---|---|---|
| Trigger | 1,615,354 | $ 7,887,798 |
| No trigger | 376,923 | 920,366 |
| | 1,992,277 | $ 8,808,164 |

(1) Adjusted for the consolidation of June 30, 2017

Table 24 sets out the market prices at which the trigger price would be reached for those warrants that have an acceleration clause that would force exercise.

*Table 24: Warrants with Accelerated Expiry Dates and Estimated Trigger Prices* [(1)]

| | Exercise Price | Exercise Currency | # of Warrants | Estimated Trigger Price | CAD Proceeds |
|---|---|---|---|---|---|
| Compensation warrants | $ 2.60 | USD | 46,075 | $ 9.86 | $ 151,397 |
| Compensation warrants | $ 2.90 | CAD | 16,281 | $ 11.31 | 47,215 |
| Warrants | $ 3.40 | USD | 1,001,006 | $ 5.59 | 5,591,614 |
| Warrants | $ 3.80 | CAD | 551,992 | $ 4.94 | 2,097,572 |
| | | | 1,615,354 | | $ 7,887,798 |

(1) The estimated trigger prices were calculated based upon the closing price of the USD-CAD foreign exchange rate at April 30, 2017, and after adjusting for the effect of the consolidation of June 30, 2017. These trigger prices will vary based upon fluctuations in this rate over time.

As the extent and timing of warrant exercise as a source of financing is uncertain, the Company continues to look at alternative financing sources to support operations going forward. The current focus in this regard is on private placements with accredited and institutional investors.

### 3) Investing Activities

Investing activities in FYE 2017 consisted of the purchase of $18,855 in computer equipment (FYE 2016 – $32,578), $91,153 in computer software (FYE 2016 – $177,552), and $113,496 in patent costs (FYE 2016 – $72,826). The investment in computer software in FYE 2016 included $88,811 for an electronic data capture system used in the COTI-2 Trial to record, track, and analyze the patient test data. Investment in such items will continue as the Company relies heavily on technology to run the Trial, the CHEMSAS® process, and the ROSALIND™ technology, and invests in patents to protect its intellectual property in support of future licensing revenue. At FYE 2017, the Company had 24 patents granted and 11 patents pending in various jurisdictions with a carrying value of $735,608 (FYE 2016 – $785,958). A summary related to these patents appears in Table 25.

*Table 25: Summary of Patent Investments*

| Patents | Therapeutic Target | April 30, 2017 | April 30, 2016 |
|---|---|---|---|
| Granted: | | | |
| COTI-2 | Oncology | $ 284,250 | $ 239,201 |
| COTI-219 | Oncology | 15,954 | 7,554 |
| COTI-4 | Oncology | 95,100 | 33,008 |
| HIV | HIV | 69,612 | 14,237 |
| Three compounds | Acute myelogenous leukemia | 90,080 | 114,331 |
| | | 554,996 | 408,331 |
| Pending: | | | |
| COTI-2 | Oncology | 34,819 | 123,662 |
| COTI-4 | Oncology | 12,873 | 90,748 |
| Other | Various indications/technologies | 132,920 | 163,217 |
| | | 180,612 | 377,627 |
| Total patents | | $ 735,608 | $ 785,958 |

The Company conducts a periodic review of its tangible and intangible assets for impairment indicators, at each reporting period date, including its most recent analysis at FYE 2017, to ensure the carrying value of these assets (equipment, molecules, patents, and computer software) is not impaired. During fiscal 2017, the Company abandoned certain patent efforts and an aggregate of $99,083 net of the reversal of prior amortization was adjusted from patent costs, primarily patents pending, to expense. Management determined there were no impairment indicators affecting the carrying values of the other tangible and intangible assets at FYE 2017.

**Working Capital**

The Company had Adjusted Working Capital at FYE 2017 of $972,482 compared to $4,602,044 at FYE 2016 (see Table 33). 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 26 below.

*Table 26: Summary of Investments*

| As at April 30, 2017 | | | | |
|---|---|---|---|---|
| Investment description | Fiscal Year of Maturity | Effective Interest Rate | Cost | Fair Value |
| Guaranteed investment certificates | 2018 | 0.81 - 1.40% | $ 1,218,000 | $ 1,227,144 |
| Canadian provincial government USD stripped bond | 2020 | 1.82% | 63,564 | 64,016 |
| Total | | | $ 1,281,564 | $ 1,291,160 |

Current assets decreased to $2,719,543 at FYE 2017 from $5,431,410 at FYE 2016 for a decrease of $2,711,867 primarily due to a decrease in Cash Resources. Current liabilities increased $253,859 to $3,206,243 at FYE 2017 from $2,952,384 at FYE 2016 primarily due to an increase in accounts payable and accrued liabilities that increased $917,695. 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 had commitments at the year-end to pay for the completion of work primarily under research and development contracts related to the COTI-2 Trial. Payment timing of 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. Summary details of the estimated timing of the Company's commitments are set out below.

*Table 27: R&D Commitments*

| Fiscal Years ending April 30 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|
| COTI-2: | | | | |
| Clinical trial costs | $ 843,432 | $ 562,288 | $ - | $ 1,405,720 |
| Other preclinical | 118,044 | - | - | 118,044 |
| | 961,476 | 562,288 | - | 1,523,764 |
| Other molecules | 71,281 | - | - | 71,281 |
| Other non-R&D consulting contracts | 233,240 | 25,623 | - | 258,863 |
| Total | $ 1,265,997 | $ 587,911 | $ - | $ 1,853,908 |

## 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 into R&D contracts denominated in foreign currencies. These contracts have primarily been in United States dollars ("USD") but have included Euros ("EUR"), British pound sterling ("GBP") and Swiss Francs ("CHF") and, as a result, the Company has exposure to fluctuations in exchange rates between the CAD and such currencies. As exposure was not significant, the Company has not used derivative instruments to reduce its exposure to this foreign currency risk.

The Company completed a financing in the fall of 2014 that was priced in USD and was partially settled in USD. These USD funds provided some natural hedging against changes in the USD and on the Company's USD expenditures in fiscal 2016 up to the end of November 2015. On March 29, 2016, the Company closed a USD $1.1m financing which provided some natural hedging against its fiscal 2017 USD expenditures related to the Trial. These Trial costs are currently estimated to occur over the period ending December 2018 and are in the range of USD $663,000 as at April 30, 2017.

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 increased its focus 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 based upon foreign currency amounts held at FYE 2017 expressed in CAD is set out in Table 28 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 April 30, 2017 would have decreased the Company's loss by approximately $31,000 (2016 – increased loss by $57,000). A 5% weakening of the CAD against the USD at those dates would have had the equal but opposite effect assuming all other variables remain constant.

*Table 28: Foreign Exchange Balances Held*

| As at April 30, 2017 | CAD | USD | Other | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 653,114 | $ 64,428 | $ 134 | $ 717,676 |
| Investments | 1,227,144 | 64,016 | - | 1,291,160 |
| Other receivables | 186 | 1 | 4,863 | 5,050 |
| Accounts payable and accrued liabilities | (900,244) | (739,610) | (72,953) | (1,712,807) |
| Warrant liability | - | (1,459,182) | - | (1,459,182) |
| Long-term accrued liability | (225,000) | - | - | (225,000) |
| | $ 755,200 | $ (2,070,347) | $ (67,956) | $ (1,383,103) |

## Related Party Transactions

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

a) Share-based compensation

Table 29 sets out the amount of share-based compensation for option grant transactions with related parties that occurred during FYE 2016 and FYE 2017 based upon the total fair value of each option grant at the date of the transaction using a Black-Scholes valuation model and the model input assumptions applicable at the time of the grant.

*Table 29: Share-based Compensation Affecting Related Parties*

| | | | Pre-consolidaton | | Post-consolidaton | | Share-based Value at Grant | |
|---|---|---|---|---|---|---|---|---|
| Relationship | Transaction Type | Date | # of Options | Exercise Price | # of Options | Exercise Price | FYE 2016 | FYE 2017 |
| Director | Option grant [1] | May 13, 2015 | 104,350 | $0.290 | 10,435 | $2.90 | $ 17,426 | $ - |
| Directors | Option grant [1] | Oct 15, 2015 | 1,451,611 | $0.305 | 145,161 | $3.05 | 267,000 | - |
| Director | Option grant [1] | Jan 8, 2016 | 147,850 | $0.305 | 14,785 | $3.05 | 24,839 | - |
| Officers | Option grant [2] | Jul 5, 2016 | 3,000,000 | $0.700 | 300,000 | $7.00 | - | 975,409 |
| Directors | Option grant [3] | Oct 13, 2016 | 1,073,795 | $0.520 | 107,380 | $5.20 | - | 410,190 |
| Officers | Option grant [4] | Oct 13, 2016 | 418,067 | $0.520 | 41,807 | $5.20 | - | 120,984 |
| Officer | Option grant [5] | Jan 1, 2017 | 1,500,000 | $0.475 | 150,000 | $4.75 | - | 370,192 |
| | | | | | | | | |
| Directors | Option exercise [6] | Oct 26-27, 2015 | 562,016 | $0.165 | n/a | n/a | - | - |
| Director | Option exercise [6] | Nov 30, 2015 | 100,000 | $0.160 | n/a | n/a | - | - |
| Directors | Option exercise [6] | Aug - Oct 2016 | 463,415 | $0.300 | n/a | n/a | - | - |
| Officers | Option exercise [6] | Sept 20, 2016 | 27,150 | $0.250 | n/a | n/a | - | - |
| | | | | | | | - | |
| Directors | Option expiry | Oct 27, 2015 | 135,659 | - | n/a | n/a | - | - |
| Officer | Option expiry [7] | Jan 30, 2017 | 1,637,963 | - | n/a | n/a | - | (530,414) |

(1) Granted as retainer compensation for directorship responsibilities. The Options have a five-year life with 25% vesting at the end of each quarter from the date of grant.

(2) Granted to officers of the Company. The Options have a five-year life with one-half vesting equally over two years and the balance vesting upon achievement of specified milestones.

(3) Granted to the non-management directors as retainer compensation for directorship responsibilities. The Options have a five-year life with 25% vesting at the end of each quarter from the date of grant.

(4) Granted to officers of the Company. The Options have a five-year life with 25% vesting at the end of each quarter from the date of grant.

(5) Granted to an officer of the Company. The Options have a five-year life with vesting occurring on an equal monthly basis over two years from the date of the grant.

(6) Exercised by various directors and officers.

(7) On January 30, 2017, an officer resigned and unvested options expired immediately. The value of the share-based compensation previously recognized for these Options and any unamortized balance was adjusted during fiscal 2017. The life of the vested options was extended for one year at the discretion of the Board as provided in the Company's stock option plan.

b) Share equity and other transactions

There were no private placements closed during FYE 2017. Related party participation regarding private placements and other transactions during FYE 2017 and FYE 2016 are summarized in Table 30.

*Table 30: Share Equity and Other Transactions* [(1)]

| **Relationship** | **Description of Transaction** | **Amount** | |
|---|---|---|---|
| | | FYE 2016 | FYE 2017 |
| Director | July 31, 2015, participated in private placement acquiring 60,000 units representing 2.8% of total private placement [(2)] | $ 18,000 | |
| Officer | January 13, 2016, 35,800 $0.26 warrants exercised [(2)] | 9,308 | |
| Director and officer | March 15-16, 2016, 50,000 $0.30 warrants were exercised [(3)] | 15,000 | |
| Director | Consulting agreement service payments [(4)] | $ 36,650 | $ 70,290 |

(1) All prices and units are presented in the table on a pre-consolidation basis.

(2) The Company completed a private placement in two tranches closing on June 29 and July 31, 2015. A director participated in the private placement with a gross investment of $18,000 on the same terms and conditions as all other investors.

(3) Warrants held by certain key personnel to acquire 85,800 common shares arising from various private placements were exercised for $24,308.

(4) The Company engaged a human resources consulting firm under a contract at standard market terms. The President of the consulting firm is related to a director of the Company. Fees and expenses paid or accrued for services rendered are set out in the table.

c) Amounts due to related parties

At April 30, 2017, there were directors' fees payable of $3,118 (2016 – $5,104) and accrued salaries, benefits, and outstanding vacation pay owing to Executives of $98,344 (2016 – $113,829), and accrued bonuses payable to Executives of $91,326 (2016 – nil).

## Outstanding Share Information

Outstanding share information at the close of business on August 24, 2017 is set out in Table 31 after giving effect to the consolidation of the Company's common shares and related securities as described in "Future Financing" above.

*Table 31: Outstanding Share Information*

| | Outstanding | Expiry Date |
|---|---|---|
| Common shares | | |
| Authorized - unlimited | | |
| Issued | 14,915,844 | |
| Diluted [1] | 18,119,052 | |
| Common share warrants [3] | | |
| $3.80 warrants | 242,055 | Mar 29/18 |
| $2.60 warrants | 76,923 | Feb 4/19 |
| $1.90 USD compensation warrants | 300,000 | Apr 11 - Jun 6/19 |
| $3.40 USD warrants [3] | 1,001,006 | Oct 16 - Nov 24/19 |
| $2.60 USD compensation warrants | 46,075 | Oct 16 - Nov 24/19 |
| $3.80 warrants | 309,937 | Dec 18/19 - Feb 16/20 |
| $2.90 compensation warrants | 16,281 | Dec 18/19 - Feb 16/20 |
| | 1,992,277 | |
| Common share stock options | | |
| $1.40 - $2.50 | 256,101 | Sep 9/17 - Mar 19/20 |
| $2.51 - $5.00 | 619,489 | Oct 21/19 - Mar 1/22 |
| $5.01 - $7.20 | 335,342 | Jul 4/21 - Jul 16/21 |
| | 1,210,932 | |

[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 Aug 21, 2017.

[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 long timeframes and uncertain nature of developing viable drug candidates. Risks notwithstanding, success in this industry can be highly rewarding. COTI became a clinical stage company in Q3-F'16 upon initiating the COTI-2 Trial. COTI's long-term potential will be realized through the successful development and commercialization of molecules discovered using the Company's drug discovery technology, CHEMSAS®.

The industry and economic risk factors most significant to the Company are discussed below.

### a) Going Concern Risk

The Company's goals for fiscal 2018 include completing the current Phase 1 dose-escalation COTI-2 Trial and expanding the trial into other indications; progressing COTI-219 through the required manufacturing and preclinical studies to enable a successful IND application submission in early calendar 2018; continuing the development of its internal pipeline of drug candidates; and completing the validation phase of the ROSALIND™ platform. As with most early-clinical-stage biotech companies, COTI has not yet established any operating revenue to fund operations and therefore operating cash flows continue to be negative. The need to obtain additional funding discussed under "Liquidity and Cash Resources" and the material uncertainties highlighted in note 3 of the Annual Audited Financial Statements identify the risks associated with the Company being able to accomplish its goals.

The Company is taking steps to address the going concern risk by pursuing sources of financing including but not limited to, raising capital in the private and public markets, securing government grants, seeking partners for business development collaboration opportunities, and other strategic initiatives. The Company has discretion with many of its expenditure activities and plans to manage these activities in fiscal 2018 within the limits of available cash resources. The Company's financial statements were prepared assuming that the Company will continue as a going concern. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing the financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond April 30, 2018, or alleviate the going concern risk in future periods.

### b) Uncertainties Related to Research

Like other biotech and pharmaceutical companies, COTI's research programs may not lead to desired results. In addition, the timeframe for obtaining test results may be longer than planned or may not be possible given time, resources, and other constraints. Success in one stage of testing is not necessarily an indication of success 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 will prove safe, effective, and suitable for human use.

**c) Clinical Trial Risks**

Clinical trials are very expensive and carry several risks, including:

- the requirements of government authorities that regulate the advancement of drug candidates through the testing and approval stages;
- the requirements of clinical investigator institutions;
- the potential failure to achieve the targeted safety and efficacy endpoints of the specific trial;
- the potential suspension of a clinical trial by regulatory officials due to unacceptable health risks;
- 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;
- the potential for failure at any stage of the trial due to unacceptable toxicities or other unforeseen safety issues;
- the potential for problems that cause the Company to repeat parts or all of the trial, amend the trial protocol, or abandon the trial; and,
- a slower than expected patient enrollment rate.

In summary, clinical trials may fail at various stages and for a multitude of reasons, which could have severe consequences for the business.

**d) Lack of Revenues**

The revenue cycle for drug development is long; typically 5 to 10 years depending when monetization of the asset occurs. COTI continues to develop relationships with prospective partners and to selectively seek strategic licensing and collaboration opportunities. The Company has not entered into a licensing agreement to date and will assess the merits of doing so opportunistically, with a view to its strategic plan. The continued development of COTI-2 and the resulting human test data for toxicity and efficacy are important elements of potential licensing or partnership deals. Operating losses will continue until future revenues are sufficient to fund continuing operations. COTI is unable to predict when it will become profitable, or the extent of any future losses or profits. The Company will continue to seek strategic sources of financing to fund its operations in the interim.

**e) Securing Adequate Licensing Agreements**

Securing licensing agreements is one avenue for the Company to commercialize its products. Positive results in the COTI-2 Trial are expected to generate increased interest in potential licensing agreements for this drug candidate. Despite positive test results, there is no certainty that licensing deals can be negotiated for COTI-2 or COTI's other compounds. There is also no certainty that COTI can obtain licensing terms that are acceptable or that indicate a commercially viable market for its products.

### f) Access to Capital

COTI continually monitors its Cash Resources to support its R&D programs. In "Liquidity and Cash Resources", the Company noted the need for additional financing to fund operations while it is pre-revenue. If sufficient financing cannot be obtained on a timely basis, COTI may have to delay, reduce or eliminate one or more of its R&D programs or obtain funds on less favourable terms. While prior financing efforts have been successful, there can be no assurance additional funding will be obtained.

### g) Foreign Currency Risk

The Company is exposed to some foreign currency risk primarily related to the USD and to a lesser extent the EUR, GBP and CHF. The Company's COTI-2 Trial is being conducted at U.S. sites that are paid for their services in USD. The Company also holds USD investments from time to time depending upon its financing initiatives. While having both USD assets and liabilities provides some natural hedging to this exposure, it is not a formal hedge program matching such exposure. To date, the Company has not engaged in a formal hedge program related to its foreign currency risk due to the limited exposure.

## Use of Non-GAAP Financial Measures

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

### a) Cash Resources

The Company looks at its available cash for operations based on all Cash Resources, which it defines as 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 difference is the inclusion of investments as "cash available for operations". The investments held by the Company at FYE 2017 are readily cashable guaranteed investment certificates and government bonds, so the Company treats them for management purposes as Cash Resources. Accordingly, management believes the inclusion of the investments as part of Cash Resources provides more meaningful information related to the liquidity of the Company, and the cash available for operations.

*Table 32: Reconciliation to Cash*

| | April 30, 2017 | | April 30, 2016 | |
|---|---|---|---|---|
| | Cash per MD&A | Cash per Financial Statements | Cash per MD&A | Cash per Financial Statements |
| Cash and cash equivalents | $ 717,676 | $ 717,676 | $ 2,141,978 | $ 2,141,978 |
| Investments | 1,291,160 | - | 2,587,946 | - |
| Cash | $ 2,008,836 | $ 717,676 | $ 4,729,924 | $ 2,141,978 |

**b) Adjusted Working Capital**

The Company uses Adjusted Working Capital to monitor and review 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 33.

The standard working capital calculation results in a lower amount of working capital than what the Company measures as working capital. The Company uses Adjusted Working Capital to remove the accounting treatment of warrants issued with an exercise price in USD being accounted for as a liability in accordance with IFRS accounting principles.

For clarity, the warrant liability represents warrants denominated with a USD exercise price, which if exercised, will bring in cash to the Company and accordingly represents a "liability not settled in cash". Thus, Adjusted Working Capital reflects a more accurate view 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 33: Adjusted Working Capital*

| | April 30, 2017 | April 30, 2016 |
|---|---|---|
| Amounts per financial statements: | | |
| Current assets | $ 2,719,543 | $ 5,431,410 |
| Current liabilities | 3,206,243 | 2,952,384 |
| Working capital | (486,700) | 2,479,026 |
| Adjustment for non-cash items: | | |
| Warrant liability | 1,459,182 | 2,123,018 |
| | $ 972,482 | $ 4,602,044 |

**c) Common Share Warrants Outstanding**

The Company discloses warrants, accounted for as Warrant liability under IFRS, as part of its outstanding warrant information when disclosing the components required in setting out its Outstanding Share Information (see discussion under Adjusted Working Capital). This presentation is made for two reasons; first, upon exercise of these warrants the Company will issue shares in settlement of this liability, which will form part of future share capital and accordingly is of relevance in

reviewing the future share structure and potential dilution for existing and potential investors as reflected in the number of shares outstanding if all were fully exercised; and, second, the exercise of these warrants will provide cash to the Company to fund operations consistent with the exercise of warrants accounted for as part of share capital.

*Table 34: Reconciliation of Common Share Warrants Outstanding*

| | April 30, 2017 | | April 30, 2016 | |
|---|---|---|---|---|
| | Outstanding warrants per MD&A | Outstanding warrants per Financial Statements | Outstanding warrants per MD&A | Outstanding warrants per Financial Statements |
| Warrants included in total share capital | 12,153,092 | 12,153,092 | 17,754,918 | 17,754,918 |
| Warrants included in warrant liability | 10,010,021 | - | 10,117,021 | - |
| Total outstanding warrants | 22,163,113 | 12,153,092 | 27,871,939 | 17,754,918 |

## Changes in Accounting Policies

Details regarding the adoption of new accounting pronouncements in FYE 2017 and future accounting policy changes affecting FYE 2018 based upon new accounting pronouncements are set out below.

a) Adoption of new accounting pronouncements:

The IASB issued new standards and amendments or interpretations to existing standards that were effective 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:

(i) IAS 1 - Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1 - Presentation of Financial Statements as part of its initiative to improve presentation and disclosure in financial reports. These amendments did not require any significant change to current practice, but should facilitate improved financial statement disclosures for the applicable areas affected. Management adopted these amendments in its consolidated financial statements for the annual period beginning on May 1, 2016. These amendments did not have a material impact on the financial statements.

b) Recent accounting pronouncements not yet adopted:

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued new standards or amended existing standards affecting the Company that have not been applied in preparing these financial statements as their effective dates occur for annual periods beginning subsequent to the current reporting year. 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 IAS 39 - Financial Instruments: recognition and measurement standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also 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 with early adoption permitted. Management is assessing the impact of this standard on the financial statements.