



**Unaudited Condensed Interim Financial Statements
Fiscal 2015 – First Quarter**

For the three months ended July 31, 2014 and 2013

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Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying Interim Statements of Financial Position as at July 31, 2014, and April 30, 2014, of Critical Outcome Technologies Inc., and the Interim Statements of Comprehensive Loss, the Interim Statements of Changes in Equity, and the Interim Statements of Cash Flows for the three month periods ended July 31, 2014 and 2013, have been prepared by, and are the responsibility of the Company's management and have been reviewed and approved by the Audit Committee as authorized by the Board of Directors.

Neither an audit nor review of the Interim Financial Statements is required by the Company's independent auditor under regulatory reporting requirements, however, under National Instrument 51-102 paragraph 4.3(3)(a), the Company must advise whether a review has occurred or not. Accordingly, management advises that the Company's independent auditor, KPMG LLP, was not engaged to perform a review of these Interim Financial Statements.

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Interim Statements of Financial Position**(All amounts in Canadian dollars)****(Unaudited)**

As at	July 31, 2014	April 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 868,707	\$ 830,275
Investment tax credits and other receivables	216,554	149,754
Prepaid expenses and deposits	110,070	79,673
	<u>1,195,331</u>	<u>1,059,702</u>
Non-currents assets:		
Equipment	35,017	38,068
Intangible assets (note 5)	1,334,251	1,429,933
	<u>1,369,268</u>	<u>1,468,001</u>
	<u>\$ 2,564,599</u>	<u>\$ 2,527,703</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 450,437	\$ 683,895
Debenture (note 6)	363,705	346,666
	<u>814,142</u>	<u>1,030,561</u>
Shareholders' equity	1,750,457	1,497,142
	<u>\$ 2,564,599</u>	<u>\$ 2,527,703</u>
Going concern (note 2)		
Commitments (note 10)		
Contingency (note 12)		
Subsequent events (note 13)		

See accompanying notes to interim financial statements

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Interim Statements of Comprehensive Loss**(All amounts in Canadian dollars)****(Unaudited)**

	Three months ended	
	July 31, 2014	July 31, 2013
Collaboration and research service revenue:	\$ -	\$ -
Expenses (income):		
Research and product development	234,840	133,144
Sales and marketing	43,404	2,111
General and administration	718,774	371,317
Investment tax credits	(46,021)	(7,094)
	950,997	499,478
Loss before finance income (expense)	(950,997)	(499,478)
Finance income (expense):		
Interest income (expense)	(18,486)	(123)
Foreign exchange gain (loss)	(1,313)	(451)
	(19,799)	(574)
Loss and comprehensive loss	\$ (970,796)	\$ (500,052)
Loss per share:		
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)

See accompanying notes to interim financial statements

CRITICAL OUTCOME TECHNOLOGIES INC.
Interim Statements of Changes in Shareholders' Equity
(All amounts in Canadian dollars)
(Unaudited)

For the three months ended July 31, 2014

	Common Shares	Warrants	Total Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2014	\$ 17,793,769	\$ 5,264,035	\$ 23,057,804	\$ 389,483	\$ (21,950,145)	\$ 1,497,142
Issuance of shares and warrants (note 7)	559,879	507,059	1,066,938	-	-	1,066,938
Warrant amendments (note 7(d))	-	1,241,419	1,241,419	(1,248,001)	-	(6,582)
Warrant exercises (note 7(b))	76,442	-	76,442	-	-	76,442
Share-based compensation (note 8)	-	-	-	24,928	-	24,928
Option exercises (note 7(c))	107,385	-	107,385	(45,000)	-	62,385
Loss and comprehensive loss	-	-	-	-	(970,796)	(970,796)
Balance, July 31, 2014	\$ 18,537,475	\$ 7,012,513	\$ 25,549,988	\$ (878,590)	\$ (22,920,941)	\$ 1,750,457

For the three months ended July 31, 2013

	Common Shares	Warrants	Total Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2013	\$ 16,416,798	\$ 2,493,115	\$ 18,909,913	\$ 1,922,193	\$ (18,953,966)	\$ 1,878,140
Issuance of shares and warrants	325,696	169,350	495,046	-	-	495,046
Share-based compensation	-	-	-	19,940	-	19,940
Loss and comprehensive loss	-	-	-	-	(500,052)	(500,052)
Balance, July 31, 2013	\$ 16,742,494	\$ 2,662,465	\$ 19,404,959	\$ 1,942,133	\$ (19,454,018)	\$ 1,893,074

See accompanying notes to interim financial statements

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Interim Statements of Cash Flows**(All amounts in Canadian dollars)****(Unaudited)**

For the three months ended	July 31, 2014	July 31, 2013
Cash provided by (used in):		
Operating activities:		
Loss	\$ (970,796)	\$ (500,052)
Items not involving cash:		
Amortization - equipment	3,051	3,230
Amortization - intangible assets	130,065	127,881
Accretion expense	17,039	-
Share-based compensation	24,928	19,940
Warrants issued in payment of consulting services	260,250	-
Investment tax credits	(46,021)	(7,094)
Interest (income) expense	18,486	123
Foreign exchange (gain) loss	1,313	451
	(561,685)	(355,521)
Change in non-cash operating working capital (note 9)	(295,624)	64,904
Foreign exchange loss	10,575	1,777
Interest received	1,607	292
Net cash (used in) operating activities	(845,127)	(288,548)
Investing activities:		
Purchase of equipment	-	-
Expenditures on intangible assets	(34,384)	(71,024)
Net cash (used in) provided by investing activities	(34,384)	(71,024)
Financing activities:		
Proceeds from issuance of common shares and warrants	1,013,562	495,046
Costs of issuance of common shares and warrants	(68,048)	-
Costs of warrant amendments	(6,582)	-
Interest paid	(11,727)	(660)
Net cash provided by financing activities	927,205	494,386
Increase (decrease) in cash and cash equivalents	47,694	134,814
Effect of exchange rate fluctuations on cash and cash equivalents	(9,262)	(2,228)
Cash and cash equivalents, beginning of the period	830,275	169,347
Cash and cash equivalents, end of the period	\$ 868,707	\$ 301,933
Represented by:		
Cash	\$ 148,042	\$ 88,722
Cash equivalents	720,665	213,211
	\$ 868,707	\$ 301,933

See accompanying notes to interim financial statements

1. Corporate information:

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

COTI is a public corporation trading in Canada on the TSX Venture Exchange ("TSXV") under the trading symbol "COT" and is listed for trading on the OTCQB in the United States under the symbol "COTQF". The Company is incorporated under the laws of the Province of Ontario, Canada with its registered office located at Suite 213, 700 Collip Circle, London, Ontario, Canada, N6G 4X8.

2. Going concern:

The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. For COTI, there are material uncertainties related to certain conditions and events that raise significant doubts about the validity of this assumption. In particular, the Company has not yet established operating revenues and operating cash flows continue to be negative. Key financial results for the three months ended July 31, 2014 and 2013 indicative of concern include a loss of \$970,796 (July 31, 2013 – \$500,052) and negative cash flow from operations of \$845,127 (July 31, 2013 – \$288,548). As at July 31, 2014, the Company had a deficit of \$22,920,941 (April 30, 2014 – \$21,950,145), which results in shareholders' equity of \$1,750,457 (April 30, 2014 – \$1,497,142). As at July 31, 2014, the Company had working capital of \$381,189 (April 30, 2014 - \$29,141). In addition, the Company has a debenture of \$400,000 that is due to be paid in February 2015.

The Company is dependent upon key personnel and the need to raise additional funds to support the Company's continuing development and to meet liabilities and commitments as they become due while executing its business plan. The Company is taking steps to address the going concern risk by actively seeking potential customers, partners, and collaborators as a means of furthering molecule development and generating revenue streams, and pursuing alternative sources of financing, including but not limited to, raising capital in the public market, and securing government grants.

The Company has discretion with many of its expenditure activities and plans to manage these activities in fiscal 2015 within the limits of available cash resources. While the Company has a history of obtaining financing, there is no certainty that any of the aforementioned strategies will enable the Company to alleviate the going concern risk in future periods.

CRITICAL OUTCOME TECHNOLOGIES INC
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Subsequent to the quarter-end, the Company realized \$200,796 in financing through the exercise of warrants issued in prior years' private placements (note 13(a)).

The accompanying Interim Financial Statements have been prepared assuming that the Company will continue as a going concern. Accordingly, these Interim Financial Statements do not include any adjustments to the carrying values and classifications of assets and liabilities, or the reported expenses that would be necessary if the going concern assumption was not appropriate. Any adjustments to the Interim Financial Statements could be material.

3. Basis of preparation:

(a) Compliance with accounting standards:

These Interim Financial Statements for the three months ended July 31, 2014 and July 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and specifically International Accounting Standard ("IAS"), IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The accounting policies in these fiscal 2015 Interim Financial Statements are consistent with the policies the Company adopted in its Annual Financial Statements as at, and for the year ending, April 30, 2014. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2014, Annual Financial Statements. COTI has also prepared these Interim Financial Statements on an individual entity basis, as it has no subsidiaries. Management has determined that the Company operates in one reportable segment based on the business activities reflected in its revenues and expenses since inception.

In preparing these Interim Financial Statements, certain information and disclosures normally included in the notes to the Annual Financial Statements are condensed or not presented. These Interim Financial Statements should be read in conjunction with the Company's most recent Annual Financial Statements as of April 30, 2014, and related notes.

These Interim Financial Statements were approved for issuance by the Audit Committee on September 29, 2014.

(b) Basis of measurement:

The Interim Financial Statements have been prepared on a historical cost basis. The Statements of Comprehensive Loss are presented using the functional classification for expenses.

(c) Functional and presentation currency:

These Interim Financial Statements are presented in Canadian dollars ("CAD"), which is the functional currency of the economic environment in which the Company operates.

(d) Use of estimates and judgments:

The preparation of these Interim Financial Statements in conformity with IFRS requires the Company to apply judgement when making estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses at the date of the Interim Financial Statements. There is a degree of measurement uncertainty inherent in the Company's estimates and assumptions and accordingly, changes in these estimates and assumptions could result in material adjustments to the carrying amounts of assets and liabilities in future periods. There has been no material change in the significant estimates and assumptions as described in note 4 (d) of the Annual Financial Statements for the year ended April 30, 2014.

4. Significant accounting policies:

The accounting policies, set out in detail in note 5 of the Annual Financial Statements for the year ended April 30, 2014, have been applied consistently to all periods presented in these Interim Financial Statements.

(a) Adoption of new accounting pronouncements:

The Company adopted new accounting pronouncements commencing in the first quarter of this fiscal year, details of which were described in the Company's April 30, 2014 Annual Financial Statements. These standards did not have a significant impact on the Company's year-to-date Interim Financial Statements and included the following:

- i. IAS 32 – Financial Statements: Presentation
- ii. IAS 36 – Impairment of Assets

(b) Recent accounting pronouncements not yet adopted

- i. IFRS 9 - Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities which when implemented will eliminate the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. The IASB has tentatively decided on an effective date of January 1, 2018. The Company will be assessing the impact of the issued and proposed changes to IFRS 9 and does not intend to early adopt these changes.

- ii. IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers, which introduces a single model for recognizing revenue from contracts with customers except leases, financial instruments and insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2017 with retroactive application. The Company intends to adopt IFRS 15 in its financial statements for

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the annual period beginning on May 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

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

In December 2013, the IASB issued narrow-scope amendments to nine standards as part of its annual improvements process. Not all amendments to the nine standards are applicable to the Company's business. The amendments that may affect the Company based upon its current operations, and the clarifications to the respective standards are as follows:

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

Most amendments apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on May 1, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

5. Intangible assets:

Summary details of the Company's intangible assets at July 31, 2014, appear in the following table.

As at July 31, 2014	Molecules	Granted Patents	Pending Patents	Computer Software	Total
Cost, April 30, 2014	\$ 3,275,785	\$ 355,565	\$ 413,412	\$ 141,802	\$ 4,186,564
Additions	-	509	33,875	-	34,384
Transfers upon patent grant	-	-	-	-	-
Expired software licenses	-	-	-	(72,650)	(72,650)
Cost, July 31, 2014	3,275,785	356,074	447,287	69,152	4,148,298
Accumulated amortization, April 30, 2014	(2,596,202)	(85,563)	-	(74,866)	(2,756,631)
Amortization	(107,303)	(5,475)	-	(17,288)	(130,066)
Expired software licenses	-	-	-	72,650	72,650
Accumulated amortization, July 31, 2014	(2,703,505)	(91,038)	-	(19,504)	(2,814,047)
Net carrying value, July 31, 2014	\$ 572,280	\$ 265,036	\$ 447,287	\$ 49,648	\$ 1,334,251

6. Debenture

The Debenture agreement for proceeds of \$400,000 entered into on February 5, 2014, has a term of one year from the date of issuance and bears interest at a rate of 10%, with interest only payable on a monthly basis. The Company also issued a general security agreement in favour of the lender in support of the Debenture. The Company has the option to repay the Debenture before its maturity date for a redemption fee of \$40,000. The lender has the option to apply the redemption fee to a participation in any equity financing undertaken by the Company in calendar 2014 related to the repayment of the Debenture on the same terms and conditions as that financing.

As the Debenture contained both a liability component and an equity component represented by Debenture Warrants, the fair value of the liability was determined using a discounted cash flow model and the equity component was estimated using the residual method. The present value of the debenture and its interest payments was calculated at a discount rate of 20%, which was the estimated borrowing rate available to the Company for a similar debenture having no Debenture Warrants. The interest discount is being accreted to the Debenture on a monthly basis to the date of maturity with \$8,804 recorded as interest expense in the current quarter (\$15,846 since inception). The financing costs allocated to the Debenture of \$32,678 were recognized as a reduction in the value of the Debenture and are being accreted on a monthly basis to the date of maturity with accretion of \$8,236 recorded as financing expense in the current quarter (\$16,559 since inception).

Details concerning the Debenture are summarized below.

	Face Value	Carrying Value
Balance, at issuance	\$ 400,000	\$ 331,300
Accretion expense	-	32,405
Balance, July 31, 2014	\$ 400,000	\$ 363,705

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7. Share capital:

Summary details of the Company's share capital at July 31, 2014, with comparable amounts for April 30, 2014, appear in the following table.

Expiry Date Ranges	July 31, 2014		April 30, 2014		
	Issued	Amount	Issued	Amount	
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued and fully paid:					
Common shares, without par value	103,056,758	\$ 18,537,475	96,807,979	\$ 17,793,769	
Common share purchase warrants:					
\$0.20 compensation warrants	Jul 29/14	-	-	232,652	19,543
\$0.20 warrants	Feb 4/15	1,250,000	32,786	1,250,000	32,786
\$0.20 compensation warrants	Nov 30/14 - Mar 1/15	355,343	52,424	355,343	52,424
\$0.26 warrants	Nov 30/14 - Mar 1/15	14,624,027	595,302	14,624,027	595,302
\$0.37 warrants	Mar 31/15	1,446,481	441,956	1,446,481	441,956
\$0.55 warrants	Mar 31/15	129,019	32,581	129,019	32,581
\$0.30 warrants	Apr 23 - May 26/15	11,250,000	1,899,752	11,250,000	1,899,753
\$0.26 warrants	Jan 29/16	3,569,458	507,626	3,605,258	126,761
\$0.30 warrants	Mar 15/16	12,500,000	2,518,901	12,500,000	1,659,850
\$0.28 warrants	Apr 29 - Jun 2/16	8,951,385	385,085	3,356,250	131,154
\$0.22 compensation warrants	Apr 29 - Jun 2/16	461,110	38,436	242,000	17,182
\$0.26 warrants	Feb 4/19	769,230	40,392	769,230	40,392
\$0.19 USD compensation warrants	Apr 11 - Jun 6/19	3,000,000	467,272	1,500,000	214,351
		58,306,053	7,012,513	51,260,260	5,264,035
		\$ 25,549,988		\$ 23,057,804	

A summary of the changes in common share capital is set out below.

	Shares	Amount
Balance April 30, 2014	96,807,979	\$ 17,793,769
Shares issued - private placement (note 7 (a)i)	5,595,135	562,679
Shares issued - private placement issuance costs (note 7 (a)ii)	-	(2,800)
Shares issued - warrant exercise (note 7 (b))	268,452	76,442
Shares issued - option exercise (note 7 (c))	385,192	107,385
	6,248,779	743,706
Balance July 31, 2014	103,056,758	\$ 18,537,475

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A summary of the changes in warrant capital is set out below.

	Warrants	Amount
Balance April 30, 2014	51,260,260	\$ 5,264,035
Warrants issued - private placement (note 7 (a)i)	5,595,135	255,051
Warrants issued - private placement (note 7 (a)ii)	-	(1,120)
Warrants issued - private placement compensation (note 7 (a)i)	219,110	21,254
Warrants exercised (note 7 (b))	(268,452)	(21,047)
Warrants amended (note 7 (d)i)	-	859,051
Warrants amended (note 7 (d)ii)	-	382,368
Warrants issued - consulting (note 7 (e))	1,500,000	252,921
	7,045,793	1,748,478
Balance July 31, 2014	58,306,053	\$ 7,012,513

Details concerning the share capital transactions are summarized below.

(a) Private placements:

- i. On June 3, 2014, the Company completed the second tranche of a non-brokered private placement with the first tranche having closed on April 30, 2014. Under the second tranche, the Company issued 5,595,135 units consisting of one common share and one warrant at \$0.16 per unit for gross proceeds of \$895,222. Each common share purchase warrant is exercisable for one common share at an exercise price of \$0.28 for a period of 24 months following the date of issue. The Company paid cash costs of \$56,238 related to the placement consisting of professional and legal fees of \$21,180, and \$35,058 in finders' fees. The Company also issued 219,110 compensation warrants valued at \$21,254 with each compensation warrant exercisable for one common share at an exercise price of \$0.22 for a period of 24 months from the date of issue. The expiry date for the common share purchase warrants and the compensation warrants is June 2, 2016.

The common share purchase warrants were valued using a Black-Scholes valuation model with the following assumptions:

Common share market price	\$0.19
Risk free interest rate	1.066%
Expected dividend yield	-
Expected common share price volatility	103.86%
Expected warrant life in years	2.00

The common share purchase warrants were allocated a portion of the proceeds and private placement costs based upon their relative fair market value at the date of

issuance. Accordingly, \$279,197 in gross proceeds and \$24,146 in costs were allocated to these warrants.

- ii. Subsequent to the April 30, 2014, year-end, additional legal fees and regulatory costs of \$3,920 were recognized related to the first tranche of the private placement that closed on April 30, 2014. These costs were recognized as a decrease in Share Capital of \$2,800 and a decrease in Warrant Capital of \$1,120.

(b) Warrant exercises:

- i. On June 30, 2014, 35,800 common share purchase warrants were exercised at a price of \$0.26 per common share and 35,800 common shares were issued. Gross proceeds of \$9,308, net of costs of \$98, were recorded to Share Capital and the warrant value of \$1,504 attributed to the exercised warrants at the date of their initial issuance was transferred from Warrant Capital to Share Capital.
- ii. Also during the quarter, 232,652 compensation warrants due to expire on July 29, 2014, were exercised at a price of \$0.20 per common share and 232,652 common shares were issued. Gross proceeds of \$46,530, net of costs of \$345, were recorded to Share Capital and the warrant value of \$19,543 attributed to the exercised warrants at the date of their initial issuance was transferred from Warrant Capital to Share Capital.

(c) Share option exercises:

On June 20, 2014, 210,773 Share Options were exercised at a price of \$0.16 per common share and 174,419 Share Options were exercised at a price of \$0.165 per common share. Concurrent with these exercises, the Company was required to transfer to Share Capital the value previously recognized in Contributed Surplus at the time of the Share Options being granted. Accordingly, gross proceeds of \$62,503 received on exercise, net of issuance costs of \$118, and the transfer of \$45,000 from Contributed Surplus resulted in an increase in Share Capital of \$107,385.

(d) Warrant amendments:

- i. On May 27, 2014, 12,500,000 common share purchase warrants exercisable at \$0.30 and due to expire on May 31, 2014, were amended. The new expiry date is March 15, 2016, and is subject to a reduction period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrant (the "Premium Trading Days"), the closing price of the common shares on the TSXV equals or exceeds \$0.60. If this occurs, the reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the warrants were unchanged.

The net change in the fair value of the warrants upon amendment was recognized using a Black-Scholes valuation model in the amount of \$862,500 and was recognized, net of direct cash costs to implement the amendment of \$3,449 as an increase in Warrant Capital and a decrease in Contributed Surplus. The assumptions used in the model were as follows:

Common share market price	\$0.195
Risk free interest rate	1.24%
Expected dividend yield	-
Expected common share price volatility	97.82%
Expected warrant life in years	1.80

- ii. On July 16, 2014, 3,569,458 common share purchase warrants exercisable at \$0.26 and due to expire on July 29, 2014, were amended. The new expiry date is January 29, 2016, and is subject to a reduction period of 21 days if, for any ten consecutive trading days during the unexpired term of the Warrant (the "Premium Trading Days"), the closing price of the common shares on the TSXV equals or exceeds \$0.60. The reduced exercise period of 21 days will begin seven calendar days after the tenth Premium Trading Day. The remaining terms and conditions of the warrants were unchanged.

The change in the fair value of the warrants upon amendment was recognized using the Black-Scholes valuation model in the amount of \$385,501 and was recognized, net of direct cash costs to implement the amendment of \$3,133 as an increase in Warrant Capital and a decrease in Contributed Surplus. The assumptions used in the model were as follows:

Common share market price	\$0.255
Risk free interest rate	0.95%
Expected dividend yield	-
Expected common share price volatility	106.43%
Expected warrant life in years	1.54

(e) Warrant issuances:

On May 5 and May 6, 2014, the Company issued 210,000 and 540,000 common share purchase warrants, respectively, to a U.S. investment bank under the terms of a strategic financing advisory agreement signed in February 2014. The warrants, exercisable to buy one common share at a price of USD \$0.19, vested immediately upon issuance and have a term of five years expiring on May 4 and May 5, 2019, respectively.

On June 6, 2014, an additional 750,000 common share purchase warrants were issued under the same above-mentioned terms, with an expiry date of June 5, 2019. The warrants and any shares

issued upon warrant exercise are subject to a hold period related to resale in Canada of four months plus one day from the date of issuance and a hold period in the United States in accordance with applicable securities laws. Cash costs of the issuance were \$7,329 primarily for professional fees.

The common share purchase warrants were valued using a Black-Scholes valuation model with the following assumptions:

		May 5		May 6		June 6
Common share market price	\$	0.186	\$	0.185	\$	0.267
Risk free interest rate		2.001%		2.001%		2.001%
Expected dividend yield		-		-		-
Estimated common share price volatility		104.29%		104.90%		103.73%
Estimated warrant life in years		4.75		4.75		4.75

The fair market value of \$260,250 calculated for the warrants was recognized as a consulting expense in General and administration.

8. Share-based compensation:

There were no share-based compensation transactions during the quarter.

For the three months ended July 31, 2014, the Company recognized share-based compensation expense of \$24,928 (July 31, 2013 – \$19,940) related to the vesting of share options granted in prior periods that did not vest immediately upon initial grant. These amounts were included in General and administration expense.

At July 31, 2014, there were 6,082,916 unexercised options with 5,597,331 of these vested and exercisable at prices ranging from \$0.14 to \$0.50 per share.

9. Supplementary cash flow information:

As at July 31		2014		2013
Change in non-cash working capital:				
Other receivables	\$	(31,769)	\$	36,053
Prepaid expenses and deposits		(30,397)		35,049
Accounts payable and accrued liabilities		(233,458)		(6,198)
	\$	(295,624)	\$	64,904

The Company also engaged in financing transactions that did not involve the use of cash as set out below.

As at July 31	2014	2013
Warrants issued as compensation in private placements	\$ 21,254	\$ 7,011
Warrants amended to extend the time to expiry	1,241,419	-
	\$ 1,262,673	\$ 7,011

10. Commitments:

At the quarter-end, the Company had commitments to pay \$195,406 for the completion of research and development contracts and \$15,146 for an insurance financing contract during the remainder of fiscal 2015.

11. Related party transactions:

Material transactions with related parties that occurred during the quarter were in the ordinary course of business and related to warrant amendments. During the quarter, the Company amended warrants nearing expiry on various dates to extend the life of the warrants for all warrant holders of the respective expiring warrants. Certain directors and officers participated in the private placement financings that resulted in the issuance of these warrants and accordingly had their warrants amended as part of the amendment activity (note 7 (d)).

12. Contingency

Upon the purchase of a library of molecules ("Molecule") in November 2007, the Company became contingently liable for the issuance of 1,431,441 common shares as part of the purchase consideration should certain development milestones be subsequently achieved by any Molecule acquired.

One-half of this contingent share consideration was payable upon the first occasion any Molecule achieved one of the following milestones:

- (a) when the Company is given notification of acceptance of an investigational new drug filing ("IND") and an IND acceptance number is received; or
- (b) when either the United States or the European patent authorities issue the Company a final patent.

The second half of this contingent share consideration was payable upon any Molecule achieving both milestones.

If by November 27, 2015, the eighth anniversary date of the transaction, these milestones are not achieved and the contingent consideration not paid, and if the Company has not abandoned its efforts to develop and commercialize the molecules by this anniversary date, the Company is required to:

- (a) issue the contingent consideration of 1,431,441 common shares at fair value, or,

- (b) pay cash consideration equal to the amount by which the fair value of the Molecules purchased in the transaction exceed the amount invested in the Molecules by the Company. If the fair value of the Molecules purchased in the transaction is less than the amount invested in the Molecules by the Company, no consideration is payable.

In 2012, the Company received a U.S. patent for a Molecule, COTI-2, that represented the achievement of one of the milestones and issued 715,720 common shares as payment for one-half of the contingent consideration. The Company has determined that the achievement of the other milestone for COTI-2 does not meet the guidance provided in IAS 37 – Provisions, which states that where an event is “more likely than not” to occur such event should be recognized. Major factors considered in the likelihood determination included: the Company’s current financial capacity to develop COTI-2 successfully through to achieving this milestone; the cost, time and expertise required in completing the IND application; the uncertainty inherent in the timing and obtaining of the remaining data for COTI-2 such as manufacturing, scale-up, dispensing and stability prior to filing the IND application; and finally the risk that the IND application will be approved by the U.S. Food and Drug Administration. The inability to meet the more likely than not criteria would apply to any of the other Molecules based upon the significant cost and timeline in advancing them through both milestones.

13. Subsequent events:

- (a) Warrant exercises:

In September 2014, the Company realized total gross proceeds of \$200,796 related to the exercise of 625,000 common share purchase warrants exercisable at \$0.30 for proceeds of \$187,500 and to the exercise of 66,482 compensation warrants exercisable at \$0.20 for proceeds of \$13,296.

- (b) Option expiries:

On September 9, 2014, 418,483 vested share options with an exercise price of \$0.50 granted to the Board of Directors in September 2009 expired.

- (c) Phase 1 clinical trial letter of intent:

On September 8, 2014, the Company announced it had signed a letter of intent with The University of Texas MD Anderson Cancer Center (“MD Anderson”), to conduct the Phase 1 clinical development of the Company’s lead cancer drug candidate, COTI-2, in gynecological cancers.

The Company’s share of the trial cost is estimated at \$1.25 million USD with the remainder of the trial costs provided by MD Anderson as in kind monitoring, testing, and pharmacy services. The parties anticipate patient recruitment for the Phase 1 clinical trial will begin in 2015 subject to approval by the FDA of the IND filing (note 12).