Critical Outcome Technologies Inc.

Unaudited Condensed Interim Financial Statements
Fiscal 2017 - Second Quarter

For the three and six months ended October 31, 2017 and 2016

Unaudited Condensed Interim Financial Statements
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Notice of No Audit or Review of Condensed Interim Financial Statements

The accompanying Interim Statements of Financial Position as at October 31, 2017 and April 30, 2017, of Critical Outcome Technologies Inc., and the Interim Statements of Comprehensive Loss for the three and six month periods ended October 31, 2017 and 2016, and the Interim Statements of Changes in Equity, and the Interim Statements of Cash Flows for the six month periods ended October 31, 2017 and 2016, 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 by the Company's independent auditor is required 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.

Critical Outcome Technologies Inc.

Interim Statements of Financial Position

(All amounts in Canadian dollars)
(Unaudited)

As at		**October 31, 2017**		**April 30, 2017**
Assets				
Current assets:				
Cash and cash equivalents	$	1,186,123	$	717,676
Investment (note 6)		60,729		1,291,160
Investment tax credits and other receivables		218,115		185,823
Prepaid expenses and deposits		373,501		524,884
		1,838,468		2,719,543
Non-current assets:				
Equipment (note 7)		27,631		42,499
Intangible assets (note 8)		1,094,178		1,264,705
		1,121,809		1,307,204
Total assets	$	2,960,277	$	4,026,747
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,845,870	$	1,747,061
Warrant liability (note 9)		160,326		1,459,182
		2,006,196		3,206,243
Long-term accrued liability		75,000		225,000
Total liabilities		2,081,196		3,431,243
Shareholders' equity		879,081		595,504
Total liabilities and shareholders' equity	$	2,960,277	$	4,026,747

Going concern (note 3)
Commitments (note 14)
Contingent liability (note 16)
Subsequent events (note 17)

See accompanying notes to interim financial statements

Critical Outcome Technologies Inc.

Interim Statements of Comprehensive Loss

(All amounts in Canadian dollars)
(Unaudited)

	Three months ended October 31, 2017	Three months ended October 31, 2016	Six months ended October 31, 2017	Six months ended October 31, 2016
Expenses (income):				
Research and product development	$ 995,080	$ 742,594	$ 1,662,255	$ 1,356,799
Sales and marketing	35,178	107,715	120,859	211,317
General and administration	743,268	922,913	1,524,391	1,576,610
Investment tax credits	-	(38,609)	(17,999)	(79,167)
	1,773,526	1,734,613	3,289,506	3,065,559
Loss before finance income (expense)	(1,773,526)	(1,734,613)	(3,289,506)	(3,065,559)
Finance income (expense):				
Interest and financing, net	19	11,920	1,214	24,053
Change in fair value of warrant liability (note 9)	21,404	949,218	1,298,856	(103,252)
Foreign exchange	(28,667)	25,189	(33,339)	81,409
	(7,244)	986,327	1,266,731	2,210
Loss and comprehensive loss	$ (1,780,770)	$ (748,286)	$ (2,022,775)	$ (3,063,349)
Loss per share:				
Weighted average shares outstanding	15,596,748	14,859,084	15,256,296	14,774,931
Basic and diluted loss per common share	$ (0.11)	$ (0.05)	$ (0.13)	$ (0.21)

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 six months ended October 31, 2017

	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2017	$ 31,438,860	$ 1,164,145	$ 32,603,005	$ 4,889,147	$ (36,896,648)	$ 595,504
Issuance of shares and warrants (note 10 (a))	$ 1,430,981	505,612	1,936,593	-	-	1,936,593
Share-based compensation (note 11)	-	-	-	373,559	-	373,559
Option issuance costs	-	-	-	(3,800)	-	(3,800)
Warrant expiries (note 10 (b))	-	(166,606)	(166,606)	166,606	-	-
Loss and comprehensive loss	-	-	-	-	(2,022,775)	(2,022,775)
Balance, October 31, 2017	$ 32,869,841	$ 1,503,151	$ 34,372,992	$ 5,425,512	$ (38,919,423)	$ 879,081

For the six months ended October 31, 2016

	Common Shares	Warrants	Total Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, April 30, 2016	$ 29,152,856	$ 1,437,727	$ 30,590,583	$ 4,008,051	$ (30,687,758)	$ 3,910,876
Share-based compensation	-	-	-	398,018	-	398,018
Share option exercises	256,431	-	256,431	(105,855)	-	150,576
Warrant exercises	1,833,290	(273,582)	1,559,708	-	-	1,559,708
Warrant liability settlements	79,234	-	79,234	-	-	79,234
Loss and comprehensive loss	-	-	-	-	(3,063,349)	(3,063,349)
Balance, October 31, 2016	$ 31,321,811	$ 1,164,145	$ 32,485,956	$ 4,300,214	$ (33,751,107)	$ 3,035,063

See accompanying notes to interim financial statements

Critical Outcome Technologies Inc.

Interim Statements of Cash Flows

(All amounts in Canadian dollars)
(Unaudited)

For the six months ended	**October 31, 2017**	**October 31, 2016**
Cash provided by (used in):		
Operating activities:		
Loss	$ (2,022,775)	$ (3,063,349)
Items not involving cash:		
Amortization - equipment	17,022	14,695
Amortization - intangible assets	95,854	97,141
Loss on disposal of patents	125,958	13,250
Loss on disposal of equipment	128	-
Share-based compensation	373,559	398,018
Change in fair value of warrant liability	(1,298,856)	103,252
Investment tax credits	(17,999)	(79,167)
Interest and financing expense, net	(1,219)	(24,053)
Unrealized (gain) on market value of investments	3,286	(56,474)
Foreign exchange (gain) loss	33,339	(81,409)
	(2,691,703)	(2,678,096)
Change in non-cash operating working capital (note 13)	85,914	509,804
Foreign exchange gain (loss) realized	(25,168)	47,527
Interest received	2,799	24,230
Net cash (used in) operating activities	(2,628,158)	(2,096,535)
Investing activities:		
Redemption (purchase) of investments	1,227,145	(215,150)
Purchase of equipment	(3,941)	(9,766)
Proceeds from disposal of equipment	1,659	-
Expenditures on intangible assets	(51,285)	(65,847)
Net cash provided by (used in) investing activities	1,173,578	(290,763)
Financing activities:		
Proceeds from issuance of common shares and warrants	2,054,504	1,758,792
Costs of issuing common shares and warrants	(117,910)	(2,060)
Proceeds from settlement of warrant liability	-	32,786
Costs of issuing of stock options	(3,800)	-
Interest paid	(1,596)	(1,061)
Net cash provided by financing activities	1,931,198	1,788,457
Increase (decrease) in cash and cash equivalents	476,618	(598,841)
Effect of exchange rate fluctuations on cash and cash equivalents	(8,171)	33,882
Cash and cash equivalents, beginning of the period	717,676	2,141,978
Cash and cash equivalents, end of the period	$ 1,186,123	$ 1,577,019
Represented by:		
Cash	$ 25,864	$ 195,107
Cash equivalents	1,160,259	1,381,912
	$ 1,186,123	$ 1,577,019

See accompanying notes to interim financial statements

1. Corporate Information:

Critical Outcome Technologies Inc. (“COTI” or the “Company” or the “Corporation”) is a public corporation listed in Canada on the TSX Venture Exchange (“TSXV”) under the trading symbol “COT” and in the United States on the OTCQB under the trading symbol “COTQF”. The Company is incorporated under the laws of the Province of Ontario, Canada with its registered office located at Suite 230B, 100 Collip Circle, London, Ontario, Canada, N6G 4X8.

2. Description of business:

COTI is a clinical stage biopharmaceutical company that is advancing a pipeline of targeted therapies for the treatment of cancer and other unmet medical needs. 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, and the Company’s second clinical candidate, COTI-219, is a novel oral small molecule compound targeting the mutant forms of KRAS with such mutations occurring in up to 30% of all cancers.

3. Going concern:

The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize on 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 Company’s ability to continue as a going concern. In particular, the Company has no commercial operating revenues and operating cash flows continue to be negative. Key financial results for the six months ended October 31, 2017 and 2016 are indicative of concern. These results include a loss of $2,022,775 (October 31, 2016 – $3,063,349) and negative cash flow from operations of $2,628,158 (October 31, 2016 – $2,096,535). As at October 31, 2017, the Company had a deficit of $38,919,423 (April 30, 2017 – $36,896,648), shareholders' equity of $879,081 (April 30, 2017 – $595,504), and a working capital deficit of $167,728 (April 30, 2017 – working capital deficit of $486,700). Also as at October 31, 2017, the Company had cash, cash equivalents and investments of $1,246,852 and will need to obtain additional financing during the current fiscal year to sustain operations.

The Company is dependent upon key personnel, the successful completion of the Company’s clinical trials for COTI-2, and success in raising additional funds to support continuing operations and meet its liabilities and commitments as they become due while executing its strategic business plans for fiscal 2018 and future years. 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 collaboration development opportunities, and other strategic initiatives. 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.

The accompanying financial statements have been 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 these financial statements. Accordingly, these financial statements do not include any adjustments to the carrying values and classification of assets and liabilities, or the reported expenses that would be necessary if the going concern assumption was not appropriate. Any adjustments to the financial statements could be material.

4. Basis of preparation:

(a) Compliance with accounting standards:

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

The accounting policies in these fiscal 2018 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, 2017. These accounting policies were disclosed in detail in note 5 of the Company's April 30, 2017 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.

The notes presented in these interim financial statements include only significant changes and transactions occurring since the Company's last year end in accordance with IAS 34 and are not fully inclusive of all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. These interim financial statements should be read in conjunction with the Company's most recent Annual Financial Statements as of April 30, 2017, and related notes.

These interim financial statements were authorized for issuance by the Audit Committee on December 27, 2017.

(b) Basis of measurement:

The interim financial statements have been prepared on a historical cost basis, except for the warrant liability and the investment, classified as fair-value-through-profit-and-loss ("FVTPL"), that are measured at fair value at each reporting date.

The Statements of Comprehensive Loss are presented using the functional classification for expenses.

(c) Functional and presentation currency:

The financial statements are presented in Canadian dollars ("CAD"), which is the functional currency of the primary economic environment in which the Company operates.

(d) Use of estimates and judgements:

The preparation of these interim financial statements in conformity with IFRS requires management to make estimates and assumptions, and apply judgement in the process of applying accounting policies, that affect the reported amounts of assets, liabilities, income, and expenses at the date of the interim financial statements. Actual results could differ materially from these estimates and assumptions. 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, 2017, except as follows:

(i) Warrant liability:

The Company has issued warrants with an exercise price denominated in a currency other than the Company's functional currency resulting in their classification as derivative liabilities. The Company measures the value of the warrant liability by reference to the fair value of the common shares underlying the warrants. Estimating the fair value for these warrants is determined using a currency translated option valuation model. This requires management to determine the most appropriate inputs to the valuation model including the estimated life of the warrants, an estimate of the common share's price volatility, the expected dividend yield, and the risk free interest rate. There were significant changes in certain key inputs to the valuation model when compared to the assumptions at the April 30, 2017 year end as set out in note 9 that resulted in a significant change in the fair value of the warrant liability reported year to date.

(ii) Equity warrants:

During the quarter, the Company completed a private placement unit offering (note 10 (a)) consisting of one common share and one common share purchase warrant ("Warrant"). The Warrants issued are subject to a forced exercise provision that accelerates the expiry date under certain conditions. To allocate the proceeds and the costs to the common shares and Warrants, the Company must determine their relative fair value at the date of issuance. The fair value of the equity warrants was determined using a Black-Scholes option-pricing model, which incorporated management's estimates of the risk free interest rate, the expected dividend yield, the estimated common share price volatility, and the estimated warrant life considering the accelerated exercise provision.

5. Significant accounting policies:

The significant accounting policies, set out in detail in note 5 of the Annual Financial Statements for the year ended April 30, 2017, have been consistently applied to all periods presented in these interim financial statements.

(a) Adoption of new accounting pronouncements:

The Company did not adopt any new accounting policies in the quarter.

(b) Accounting pronouncements not yet adopted

The IASB has issued new standards and amendments to existing standards. These changes in accounting standards were not yet effective for the current fiscal year that began on May 1, 2017, but could have an impact on future periods.

(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.

6. Investment:

The Company invests cash not required for immediate working capital purposes in investments that are rated “A high” or greater by Standard and Poor’s and the Dominion Bond Rating Service. At October 31, 2017, the investment consisted of a Canadian provincial government USD stripped bond with a cost of $60,842 and a fair value of $60,729.

7. Equipment:

Summary details of the Company's equipment at October 31, 2017, appear in the following table.

	Computer Hardware	Furniture and Fixtures	Total
Cost, April 30, 2017	$ 83,610	$ 122,248	$ 205,858
Purchases	3,941	-	3,941
Disposals	(12,876)	-	(12,876)
Cost, October 31, 2017	74,675	122,248	196,923
Accumulated amortization, April 30, 2017	(49,566)	(113,793)	(163,359)
Amortization	(13,267)	(3,755)	(17,022)
Disposals	11,089	-	11,089
Accumulated amortization, October 31, 2017	(51,744)	(117,548)	(169,292)
Net carrying value, October 31, 2017	$ 22,931	$ 4,700	$ 27,631

8. Intangible assets:

Summary details of the Company's intangible assets at October 31, 2017, appear in the following table.

	Molecules	Patents Granted	Patents Pending	Computer Software	Total
Cost, April 30, 2017	$ 3,526,287	$ 746,243	$ 180,612	$ 269,747	$ 4,722,889
Additions	-	22,886	25,054	3,345	51,285
Transfer upon patent grant	-	19,398	(19,398)	-	-
Patent abandonment	-	-	(125,958)	-	(125,958)
Expired software licenses	-	-	-	(84,375)	(84,375)
Cost, October 31, 2017	3,526,287	788,527	60,310	188,717	4,563,841
Accumulated amortization, April 30, 2017	(3,131,337)	(191,247)	-	(135,600)	(3,458,184)
Amortization	(15,503)	(25,204)	-	(55,147)	(95,854)
Amortization reversal - patent abandonment	-	-	-	-	-
Expired software licenses	-	-	-	84,375	84,375
Accumulated amortization, October 31, 2017	(3,146,840)	(216,451)	-	(106,372)	(3,469,663)
Net carrying value, October 31, 2017	$ 379,447	$ 572,076	$ 60,310	$ 82,345	$ 1,094,178

9. Warrant liability:

During fiscal 2015, the Company completed a private placement financing on a unit basis with each unit consisting of one common share and one warrant to purchase a common share. The exercise price of the warrant is USD $3.40. Under IFRS, warrants issued with an exercise price denominated in a foreign currency are considered financial derivative instruments and the prescribed accounting treatment is to classify these warrants as a current liability measured at fair value upon initial recognition. At each subsequent reporting date, the warrants are re-measured at fair value and the change in fair value is recognized through profit or loss. Upon warrant exercise, the fair value previously recognized in Warrant liability is transferred from Warrant liability to Share capital.

The Company consolidated its common shares effective June 30, 2017 (note 10). The warrants disclosed as Warrant liability were consolidated on the same basis as the common shares in accordance with the terms of the warrant security agreements.

Details related to the Warrant liability are summarized below.

	Oct 31, 2017	April 30, 2017
Opening balance, outstanding warrants	1,001,006	1,011,706
Warrants exercised	-	(10,700)
Closing balance, outstanding warrants	1,001,006	1,001,006
Expiry dates	Oct 16 - Nov 24/19	Oct 16 - Nov 24/19
Weighted average exercise price in CAD	$ 4.384	$ 4.645
Opening balance	$ 1,459,182	$ 2,123,018
Fair value of warrant exercises transferred to share capital	-	(32,786)
Fair value adjustment at the report date	(1,298,856)	(631,050)
Net fair value change during the period	(1,298,856)	(663,836)
Closing balance	$ 160,326	$ 1,459,182

A summary of the assumptions used in the valuation model for re-measuring the fair value of the Warrant liability at the October 31, 2017 and April 30, 2017 reporting periods is set out below.

	Key Assumption	October 31, 2017	April 30, 2017
1	Estimated volatility	83.00 - 84.73%	71.53 - 72.11%
2	USD-CAD foreign exchange rate	1.2893	1.3654
3	Estimated life in years	1.94 - 2.05	2.46 - 2.57
4	Market price in CAD	$1.15	$3.80
5	Exercise price in USD	$3.40	$3.40

10. Share capital:

During the first quarter of the current fiscal year, the Company announced that, in accordance with the approval of the Company's shareholders obtained on October 13, 2016, the Board of Directors was proceeding 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"). Upon approval from the TSX Venture Exchange, 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 the Consolidation 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.

Certain warrants issued through private placements, were subject under the terms of their warrant certificates, to a forced exercise provision where the expiry date will be accelerated to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrant (the "Premium Trading Days"), the closing price of the common shares on the TSXV equaled or exceeded three times the exercise price set out in the warrant certificate. Because of the Consolidation, the forced exercise provision was adjusted to reflect the ten to one ratio effected in the Consolidation. Following the Consolidation, the Company is entitled to accelerate the expiry date of the warrants to a period of 21 days if, for any ten consecutive trading days during the unexpired term of the warrant, the closing price of the common shares on the TSXV equals or exceeds 1.3 times the exercise price of the warrants. 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 would expire.

Summary details of the Company's share capital at October 31, 2017, with comparable amounts for April 30, 2017, restated to reflect the effect of the Consolidation, appear in the following table.

		October 31, 2017		April 30, 2017	
	Expiry Date Ranges	Issued	Amount	Issued	Amount
Share capital:					
Authorized:					
Unlimited common shares					
Unlimited preference shares					
Issued and fully paid:					
Common shares, without par value		16,686,968	$ 32,869,841	14,915,844	$ 31,438,860
Common share purchase warrants:					
$4.20 warrants	Jun 28 - Jul 31/17	-	-	214,427	156,283
$3.15 compensation warrants	Jun 28 - Jul 31/17	-	-	9,612	10,324
$3.80 warrants	Mar 29/18	242,055	225,424	242,055	225,424
$1.21 warrants	Sep 19 - Oct 17/18	1,771,124	482,683	-	-
$1.21 compensation warrants	Sep 19 - Oct 17/18	60,841	22,929	-	-
$2.60 warrants	Feb 4/19	76,923	33,492	76,923	33,492
$1.90 USD compensation warrants	Apr 11 - Jun 6/19	300,000	472,222	300,000	472,222
$2.60 USD compensation warrants	Oct 16 - Nov 24/19	46,075	66,050	46,075	66,050
$3.80 warrants	Dec 18/19 - Feb 16/20	309,937	186,815	309,937	186,814
$2.90 compensation warrants	Dec 18/19 - Feb 16/20	16,281	13,536	16,281	13,536
		2,823,236	1,503,151	1,215,310	1,164,145
			$ 34,372,992		$ 32,603,005

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

	Shares	Amount
Balance April 30, 2017	14,915,844	$ 31,438,860
Shares issued - private placements (note 10 (a))	1,771,124	1,430,981
Balance October 31, 2017	16,686,968	$ 32,869,841

A summary of the changes in warrants is set out below.

	Warrants	Amount
Balance April 30, 2017	1,215,310	$ 1,164,145
Warrants issued - private placement (note 10 (a))	1,771,124	482,684
Warrants issued - private placement compensation (note 10 (a))	60,841	22,928
Warrants expired (note 10 (b))	(224,039)	(166,606)
	1,607,926	339,006
Balance October 31, 2017	2,823,236	$ 1,503,151

Details concerning share capital transactions are summarized below.

(a) Private placement:

During the quarter ended October 31, 2017, the Company completed a non-brokered private placement in two tranches closing on September 19 and October 17, 2017, respectively. The private placement was completed in a unit offering consisting of one common share and one common share purchase warrant. The common share purchase warrants and compensation warrants issued are exercisable for one common share. The expiry date for the common share purchase warrants and the compensation warrants was set at the same date for each warrant type in the respective private placement tranche.

All warrants in the private placement contain a forced exercise provision that accelerates 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 two times the exercise price set out in the warrant certificate. If this occurs, the reduced exercise period will begin seven calendar days after the tenth Premium Trading Day. Any warrants not exercised during this reduced exercise period will expire.

In each of the private placements, the common share purchase warrants were allocated a portion of the proceeds and the costs based upon their relative fair value at the date of issuance. The fair values of the common share purchase warrants and the compensation warrants were determined using a Black-Scholes option-pricing model.

Specific details of the private placement and the assumptions used in the option-pricing model for the common share purchase and compensation warrants are summarized in the tables below.

Issue price per unit	$	1.16
Common shares issued		1,771,124
Equity warrants issued		1,771,124
Equity warrant exercise price	$	1.21
Compensation warrants issued		60,841
Compensation warrant exercise price	$	1.21
Warrant term in months		12
Cash proceeds summary:		
Gross proceeds	$	2,054,504
Unit cash issuance costs		117,911
Net cash proceeds on issuance		1,936,594
Fair value of compensation warrants		22,928
Total issuance costs		140,839
Allocations to common shares:		
Proceeds		1,536,290
Issuance costs		105,309
Net value allocated to share capital		1,430,981
Allocations to warrants:		
Proceeds		518,214
Issuance costs		35,530
Net value allocated to warrants		482,684
Total net value	$	1,913,665

Equity and compensation warrants	Sep 19 & Oct 17, 2017
Assumptions:	
Common share market price	$ 1.11 - 1.13
Risk free interest rate	1.67 - 1.71%
Estimated common share price volatility	97.76 - 98.26%
Expected dividend yield	-
Estimated life in years	0.90
Total estimated fair value calculated	$ 689,350

(b) Warrants expired:

Warrants related to a private placement completed in two tranches during fiscal 2016 expired during the first quarter as set out below. The net amount previously recorded for these warrants of $166,606 was transferred to Contributed Surplus.

Warrant type	Warrants expired	Warrant value transferred	Warrant costs transferred	Share Capital
$4.20 common share	214,427	$ (170,700)	$ 14,270	$ (156,430)
$3.15 agent	9,612	(10,176)	-	(10,176)
	224,039	$ (180,876)	$ 14,270	$ (166,606)

11. Share-based compensation:

For the three month and six months ended October 31, 2017, the Company recorded share-based compensation expense of $144,889 and $373,559 respectively (October 31, 2016 – $281,847 and $398,018) consisting of the amortization of the value of options granted to employees, directors, and consultants in prior periods. At October 31, 2017, there were 404,644 options (October 31, 2016 – 338,840) available for grant under the share option plan. There were no option exercises during the quarter (October 31, 2016 – 512,312).

12. Financial instruments and risk management:

The Company is exposed to credit risk, liquidity risk, foreign exchange risk, and interest rate risk from its financial assets and liabilities. Risk management strategies are designed to ensure the Company's risks and related exposures are consistent with its business objectives and risk tolerance. There have been no significant changes to the Company's key financial risks or risk management strategies since the Company's fiscal year-end of April 30, 2017.

(a) Financial assets and liabilities:

The Company has determined that the carrying values of its financial assets and liabilities, being cash and cash equivalents, investments, other receivables, accounts payable and accrued liabilities, and the long-term accrued liability approximate their fair values because of the relatively short periods to maturity of these instruments.

The Warrant liability is recorded at fair value at each reporting period. Its fair value is estimated using a currency translated option valuation model incorporating estimated life, currency and price volatility, and the risk free interest rate (note 9).

Investments are reported at their fair value at each reporting period.

(b) Liquidity risk:

Liquidity risk is the risk of the Company having difficulty in meeting the obligations associated with its financial liabilities in delivering cash or another financial asset. The Company monitors and manages its actual cash and projected cash flows with the primary objective of maintaining liquidity and its ability to meet its financial obligations.

The contractual maturities of the Company's financial liabilities, with the exception of its long-term liability, on an undiscounted cash flow basis mature within one year. The Company has determined it has, or will have, sufficient working capital to manage its maturing financial liabilities as they come due based on its current cash, cash equivalents, and investments, and subject to its ability to raise funds as demonstrated in prior years (note 3 and 10). The Company has excluded the Warrant liability from the liquidity risk analysis, as the obligation is a non-cash liability that will be settled in shares.

(c) Foreign currency risk:

The Company has historically entered contracts denominated in currencies other than CAD. As a result, the Company may be exposed to risk from fluctuations in exchange rates between the CAD and these currencies. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause fluctuations in the Company's operating results and cash flows. During the quarter, the Company's foreign exchange exposure was primarily related to the USD.

The Company's exposure to foreign currency risk expressed in CAD at the quarter-end is set out 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 October 31, 2017 would have decreased the Company's loss by approximately $21,000. A 5% weakening of the CAD against the USD would have an equal but opposite effect assuming all other variables remain constant.

As at October 31, 2017	CAD	USD	Other	Total
Cash and cash equivalents	$ 890,620	$ 295,377	$ 126	$ 1,186,123
Investments	-	60,729	-	60,729
Other receivables	919	168	3,386	4,473
Accounts payable and accrued liabilities	(1,074,822)	(768,770)	-	(1,843,592)
Warrant liability	-	(160,326)	-	(160,326)
Long-term accrued liability	(75,000)	-	-	(75,000)
	$ (258,283)	$ (572,822)	$ 3,512	$ (827,593)

13. Supplementary cash flow information:

October 31	2017	2016
Change in non-cash working capital:		
Investment tax credits and other receivables	$ (14,278)	$ (23,008)
Prepaid expenses and deposits	151,383	56,751
Accounts payable and accrued liabilities	(51,191)	508,847
	$ 85,914	$ 509,804

The Company also engaged in certain financing transactions that did not involve the use of cash during the quarter as follows:

October 31	2017	2016
Warrants issued as compensation in private placements	$ 22,928	$ -

14. Commitments:

The Company had commitments at the quarter-end to pay for the completion of work primarily related to research and development contracts for the Company's Phase 1 clinical trial of COTI-2 in gynecologic and head and neck cancers. Payment timing of clinical trial costs is subject to the actual timing of trial activities such as the enrollment of patients, administration of drug, and completion of patient testing, as well as the negotiated payment terms with the trial site. The Company currently expects the clinical trial to conclude in fiscal 2020. A summary of the estimated timing of these commitments during the next few fiscal years is set out below.

Fiscal Years ending April 30	2018	2019	2020	Total
COTI-2:				
Clinical trial costs	$ 233,779	$ 367,558	$ 214,409	$ 815,746
Non-clinical development expense	33,935	-	-	33,935
	267,714	367,558	214,409	849,681
COTI-219	147,912	130,052	5,828	283,792
Other non-R&D contracts	114,412	-	-	114,412
Total	$ 530,038	$ 497,610	$ 220,237	$ 1,247,885

15. Related party transactions:

The Company's key personnel include the Company's C-level executives ("Executives") and its directors. At October 31, 2017, there were directors' fees payable of $28,280 (October 31, 2016 – $3,302) and accrued salaries, benefits, and outstanding vacation pay owing to Executives of $137,575 (October 31, 2016 – $288,073).

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

(a) Directors and executive officers subscribed for 159,707 units with an investment of $185,260 in the private placement financing closed in the quarter (note 10 (a)) and invested on the same terms and conditions as all other investors.

(b) A total of 123,992 stock options held by directors and employees expired out of the money during the quarter.

16. Contingent liability:

The Company has a dispute under a terminated agreement with an advisory firm relating to the performance of certain contract deliverables. The agreement provides for arbitration and the Company intends to defend the dispute. The potential cost to the Company and the outcome of arbitration are not determinable by the Company at this report date.

17. Subsequent event:

(a) Share option award:

On December 20, 2017, the Company awarded 346,428 stock options to directors. The options have a five year life, are exercisable at $1.20 and vest on an equal quarterly basis in arrears during the first year of the award.

(b) Change of name:

On December 20, 2017, the shareholders of the Company approved a special resolution authorizing the Company to amend its Articles to change the name of the Company to Cotinga Pharmaceuticals Inc. The rebranding of the Company signifies its shift from a primarily technology-driven organization to a clinical-stage, product-focused biotech and pharmaceutical company. The effective date of this change is subject to applicable regulatory approvals and the discretion of the Board of Directors as to timing.