

DelMar Pharmaceuticals, Inc.  
Form 10-Q  
May 15, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

or

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-54801

DELMAR PHARMACEUTICALS, INC.  
(Exact name of registrant as specified in its charter)

NEVADA  
(State or other jurisdiction of incorporation or  
organization)

99-0360497  
(I.R.S. Employer Identification No.)

Suite 720-999 West Broadway  
Vancouver, British Columbia, Canada  
(Address of principal executive offices)

V5Z 1K5  
(zip code)

(604) 629-5989  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No

☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ☐ No ☒

Indicated the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, 25,295,549 shares of common stock are issued and outstanding as of May 14, 2014.

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PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements.

DelMar Pharmaceuticals, Inc.  
(a development stage company)

Consolidated Condensed Interim Financial Statements (Unaudited)  
For the three months ended March 31, 2014  
(expressed in US dollars unless otherwise noted)

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DelMar Pharmaceuticals, Inc.  
(a development stage company)  
Consolidated Condensed Interim Balance Sheets  
(Unaudited)

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(expressed in US dollars unless otherwise noted)

	Note	March 31, 2014 \$	December 31, 2013 \$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		3,474,150	4,136,803
Taxes and other receivables		10,419	11,062
Prepaid expenses		269,584	170,883
		3,754,153	4,318,748
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		404,413	140,457
Related party payables	3	35,798	109,030
		440,211	249,487
Loan payable to Valent		274,387	272,372
Stock option liability	5	241,863	212,561
Derivative liability	4	5,857,991	4,402,306
		6,814,452	5,136,726
<b>Stockholders' Deficiency</b>			
Preferred stock			
Authorized			
5,000,000 shares, \$0.001 par value			
1 share outstanding at March 31, 2014			
(December 31, 2013 - 1)	5	-	-
Common stock			
Authorized			
200,000,000 shares, \$0.001 par value			
Issued 32,082,132 at March 31 2014 (December 31, 2013 - 31,534,819)	5	32,082	31,535

Additional paid-in capital	5	9,748,010	8,791,715
Warrants	5	6,201,544	6,202,100
Deficit accumulated during the development stage		(19,063,113)	(15,864,506)
Accumulated other comprehensive income		21,178	21,178
		(3,060,299 )	(817,978 )
		3,754,153	4,318,748

Going concern and nature of operations (note 1)

Subsequent events (note 7)

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

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DelMar Pharmaceuticals, Inc.  
(a development stage company)  
Consolidated Condensed Interim Statement of Loss and Comprehensive Loss  
(Unaudited)

(expressed in US dollars unless otherwise noted)

		Three months ended March 31, 2014	2013	Period from April 6, 2010 (inception) to March 31, 2014
	Notes	\$	\$	\$
Expenses				
Research and development		618,869	631,947	5,604,809
General and administrative		966,923	920,377	6,383,235
		1,585,792	1,552,324	11,988,044
Other loss (income)				
Change in fair value of derivative liability	4	1,599,349	2,543,574	(43,204 )
Issuance of shares to Valent for future royalty reduction		-	598,000	598,000
Derivative issue costs		-	2,713,220	2,737,962
Foreign exchange loss (gain)		11,947	(3,754 )	14,125
Interest expense		2,015	1,955	39,489
Interest income		(496 )	-	(2,987 )
		1,612,815	5,852,995	3,343,385
Net loss for the period		3,198,607	7,405,319	15,331,429
Basic and diluted loss per share		(0.10 )	(0.30 )	-
Weighted average number of shares		31,659,791	24,316,325	-
Comprehensive loss				
Net loss		3,198,607	7,405,319	15,331,429
Other comprehensive income				
Translation to US dollar presentation currency		-	-	(21,178 )
Comprehensive loss		3,198,607	7,405,319	15,310,251

The accompanying notes are an integral part of these consolidated condensed interim financial statements.



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DelMar Pharmaceuticals, Inc.  
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Consolidated Condensed Interim Statement of Cash Flows  
(Unaudited)

(expressed in US dollars unless otherwise noted)

	Three months ended		Period from
	March 31,		April 6, 2010
	2014	2013	(inception)
	\$	\$	to
			March 31,
			2014
			\$
Cash flows from operating activities			
Loss for the period	(3,198,607)	(7,405,319)	(15,331,429)
Items not affecting cash			
Accrued interest	2,015	1,955	24,387
Change in fair value of derivative liability	1,599,349	2,543,574	(43,204 )
Shares issued to Valent for future royalty reduction	-	598,000	598,000
Non-cash derivative issue costs	-	2,201,008	2,201,008
Units issued for services	-	-	275,284
Warrants issued for patents	-	-	89,432
Warrants issued for services	-	-	173,399
Share-based compensation	620,074	272,902	4,024,311
Prototype drug product	-	-	250,000
	(977,169 )	(1,787,880)	(7,738,812 )
Changes in non-cash working capital			
Taxes and other receivables	643	(31,395 )	(10,419 )
Prepaid expenses	(98,701 )	(54,752 )	(269,584 )
Accounts payable and accrued liabilities	263,956	(98,722 )	631,331
Related party payables	(73,232 )	(151,718 )	35,798
	92,666	(336,587 )	387,126
	(884,503 )	(2,124,467)	(7,351,686 )
Cash flows from financing activities			
Net proceeds from the exercise of warrants	221,850	-	221,850
Net proceeds from the issuance of units	-	9,639,520	10,501,916
Net proceeds from the issuance of common shares	-	-	102,070
	221,850	9,639,520	10,825,836
Increase in cash and cash equivalents	(662,653 )	7,515,053	3,474,150
Cash and cash equivalents - beginning of period	4,136,803	17,782	-

Cash and cash equivalents - end of period	3,474,150	7,532,835	3,474,150
Supplementary information			
Issuance of shares for the settlement of accounts payable	-	-	253,050
Issuance of units for the settlement of accounts payable	-	-	23,785
Non-cash share issuance costs	-	6,288,594	6,302,889
Settlement of accounts payable with a loan payable	-	-	250,000
Cashless exercise of Placement Agent Warrants	-	-	239,600
Exercise of CDN \$0.50 Warrants for no additional consideration (note 4)	17,600	-	259,315
Deferred costs	-	90,771	-

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

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DelMar Pharmaceuticals, Inc.  
(a development stage company)  
Notes to Consolidated Condensed Interim Financial Statements  
(Unaudited)  
March 31, 2014

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(expressed in US dollars unless otherwise noted)

1 Going concern and nature of operations

Going concern

For the three months ended March 31, 2014, the Company reported a loss of \$3,198,607 and an accumulated deficit of \$19,063,113 at that date. As at March 31, 2014 the Company had cash and cash equivalents on hand of \$3,474,150. The Company does not have the prospect of achieving revenues in the near future and the Company will require additional funding to maintain its research and development projects and for general operations. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due. The expenses to be incurred in developing and pursuing our Company's business plan have a large degree of uncertainty. In addition, the Company has not begun to commercialize or generate revenues from any product candidate.

Consequently, management is pursuing various financing alternatives to fund the Company's operations so it can continue as a going concern in the medium to longer term. Accordingly, the Company is considered to be in the development stage as defined in Accounting Standards Codification (ASC) 915-10. We believe, based on our current estimates and plans that we have enough cash to fund our operations for the next 9 to 12 months. Management plans to secure the necessary financing through the issue of new equity and/or the entering into of strategic partnership arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

These financial statements have been prepared on a going concern basis which assumes that the Company will continue its operations for the foreseeable future and contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The conditions and risks noted above cast substantial doubt on the validity of that assumption. These financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary and could potentially be material, should the Company be unable to continue as a going concern.

Nature of operations

DelMar Pharmaceuticals, Inc. (the "Company") is a Nevada corporation formed on June 24, 2009 under the name Berry Only Inc. On January 25, 2013 the Company acquired (either directly or indirectly) (the "Reverse Acquisition") all of the issued and outstanding shares of DelMar Pharmaceuticals (BC) Ltd. ("DelMar BC"). Prior to the Reverse Acquisition, Berry did not have any significant assets or operations. DelMar Pharmaceuticals, Inc. is the parent company of DelMar (BC), a British Columbia, Canada corporation incorporated on April 6, 2010, which is a development stage company with a focus on the development of drugs for the treatment of cancer. It is also the parent company to 0959454 B.C. Ltd., a British Columbia corporation ("Callco"), and 0959456 B.C. Ltd., a British Columbia corporation ("Exchangeco"). Callco and Exchangeco were formed to facilitate the Reverse Acquisition.



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(expressed in US dollars unless otherwise noted)

As a result of the shareholders of DelMar (BC) having a controlling interest in the Company subsequent to the Reverse Acquisition, for accounting purposes the transaction is a capital transaction with DelMar (BC) being the accounting acquirer even though the legal acquirer is Berry. Therefore, the historic financial statements of DelMar (BC) are presented as the comparative balances for the periods prior to the Reverse Acquisition.

References to the Company refer to the Company and its wholly-owned subsidiaries, DelMar (BC), Callco and Exchangeco. References to Berry relate to the Company prior to the Reverse Acquisition.

The Company is a development stage company focused on the discovery and development of new medicines with the potential to treat cancer patients who have failed modern targeted or biologic therapy. The Company has initiated a clinical trial with its lead drug candidate VAL-083 for the treatment of refractory glioblastoma multiforme (“GBM”). The Phase I/II study is an open-label, single arm dose-escalation study designed to evaluate the safety, tolerability, pharmacokinetics and anti-tumor activity of VAL-083 in patients with histologically confirmed initial diagnosis of primary WHO Grade IV malignant glioma, now recurrent. Patients with prior low-grade glioma or anaplastic glioma are eligible if histologic assessment demonstrates transformation to GBM.

The address of the Company’s administrative offices is Suite 720 - 999 West Broadway, Vancouver, British Columbia, V5Z 1K5 with clinical operations located at 3485 Edison Way, Suite R, Menlo Park, California, 94025.

## 2 Significant accounting policies

### Basis of presentation

The consolidated condensed interim financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles (“US GAAP”) and are presented in United States dollars. The Company’s functional currency is the United States dollar.

In the quarter ended March 31, 2013, the Company’s functional currency changed from Canadian dollars to United States dollars as a result of various objective factors. Therefore translation of goods and services in a foreign currency are re-measured to the functional currency of the Company with gains and losses on re-measurement recorded in the consolidated condensed interim statement of loss. Any gains and losses that were previously recorded in accumulated other comprehensive income are unchanged from the date of the change of functional currency which was January 1, 2013.

The accompanying consolidated condensed interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, DelMar BC, Callco, and Exchangeco. All intercompany balances and transactions have been eliminated.

The principal accounting policies applied in the preparation of these financial statements are set out below and have been consistently applied to all periods presented.

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Unaudited interim financial data

The accompanying unaudited March 31, 2014 consolidated condensed interim balance sheets, the consolidated condensed interim statements of loss and comprehensive loss for the three months ended March 31, 2014 and 2013, and consolidated condensed cash flows for the three months ended March 31, 2014 and 2013, and the related interim information contained within the notes to the consolidated condensed interim financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and the notes required by accounting principles generally accepted in the United States for complete financial statements. These consolidated condensed interim financial statements should read in conjunction with the annual financial statements of the Company as at December 31, 2013 filed in our Form 10-K filed with the Securities and Exchange Commission on March 10, 2014. In the opinion of management, the unaudited consolidated condensed interim financial statements reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair statement of the Company's financial position at March 31, 2014 and results of its operations for the three months ended March 31, 2014 and 2013, and its cash flows for the three months ended March 31, 2014 and 2013. The results for three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other future annual or interim period.

Use of estimates

The preparation of consolidated condensed interim financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, expenses, contingent assets and contingent liabilities as at the end or during the reporting period. Actual results could significantly differ from those estimates. Significant areas requiring management to make estimates include the derivative liability and the valuation of equity instruments issued for services. There have been no changes to the methodology used in determining these estimates from the year ended December 31, 2013.

Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding. For the three month periods ended March 31, 2014 and March 31, 2013 respectively, diluted loss per share does not differ from basic loss per share since the effect of the Company's warrants and stock options are anti-dilutive. At March 31, 2014, potential common shares of 22,392,696 (March 31, 2013 – 24,985,009) relating to warrants and 3,240,000 (March 31, 2013 - 1,020,000) relating to stock options were excluded from the calculation of net loss per common share because their inclusion would be anti-dilutive.





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Recent accounting pronouncements

The Company reviews new accounting standards as issued.

The accounting pronouncements issued subsequent to the date of these financial statements that were considered significant by management were evaluated for the potential effect on these financial statements. Management does not believe any of the subsequent pronouncements will have a material effect on these financial statements as presented and does not anticipate the need for any future restatement of these financial statements because of the retro-active application of any accounting pronouncements issued subsequent to March 31, 2014 through the date these financial statements were issued.

3 Related party transactions

During the three months ended March 31, 2014

Pursuant to consulting agreements with the Company's officers the Company pays a total of \$32,000 per month in cash compensation to its officers. Pursuant to these agreements the Company recognized a total of \$96,000 in compensation expense for the three months ended March 31, 2014.

Included in accounts payable at March 31, 2014 is an aggregate amount owing of \$35,798 (December 31, 2013 - \$74,754) to the Company's officers and directors for fees and expenses. The Company pays related party payables incurred for fees and expenses under normal commercial terms.

The Company paid \$24,000 in directors' fees during the three months ended March 31, 2014.

During the three months ended March 31, 2013

Pursuant to consulting agreements with the Company's officers and directors the Company pays a total of \$36,784 per month to its officers and directors. Pursuant to these agreements the Company recognized a total of \$110,352 in compensation expense for the three months ended March 31, 2013.

On January 25, 2013, in connection with the Reverse Acquisition (note 1), Valent was issued 1,150,000 shares of common stock of the Company in exchange for Valent agreeing to the reduction of certain future royalties payable to Valent under its Assignment Agreement with the Company. As a result of the share issuance the Company has recognized an expense of \$598,000 for the three months ended March 31, 2013.



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4 Derivative liability

The Company has issued stock purchase warrants. Based on the terms of certain of these warrants the Company determined that the warrants were a derivative liability which is recognized at fair value at the date of the transaction and re-measured at fair value each reporting period with the changes in fair value recorded in the consolidated condensed statement of loss and comprehensive loss.

CDN \$0.50 Unit Warrants

During the three months ended March 31, 2014, 20,000 warrants were exercised for no additional consideration for 20,000 shares of common stock. As a result, \$17,600 of the derivative liability has been reclassified to equity. The warrants that have been exercised were revalued at their exercise date and then the reclassification to equity was recorded.

The remaining 2,169,000 warrants expired on January 25, 2014. As of March 31, 2014 there are no CDN \$0.50 unit warrants outstanding.

Investor Warrants

During the three months ended March 31, 2014, 277,313 warrants were exercised for 277,313 shares of common stock. The Company received proceeds of \$221,850 from the exercise. As a result, \$126,064 of the derivative liability has been reclassified to equity. The warrants that have been exercised were revalued at their exercise date and then the reclassification to equity was recorded.

The remaining 12,847,689 Investor Warrants issued with the units have been re-valued at March 31, 2014 using a simulated probability valuation model using the following assumptions: dividend rate - 0%, volatility - 78%, risk free rate - 1.44% and a term of approximately four years.

Dividend Warrants

The Dividend Warrants have been measured at fair value at March 31, 2014 using a simulated probability valuation model using the following assumptions: dividend rate - 0%, volatility - 78%, risk free rate - 1.44% and a term of approximately four years.

Warrants issued for services

The Company has issued 300,000 warrants for services. The warrants were issued on September 12, 2013 and are exercisable on a cashless basis at an exercise price of \$1.76 for five years. The warrants have been measured at March 31, 2014 using a simulated probability valuation model using the following assumptions: dividend rate - 0%, volatility -81%, risk free rate - 1.62% and a term of approximately 4.5 years.

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(expressed in US dollars unless otherwise noted)

The Company's derivative liability is summarized as follows:

	March 31, 2014 \$	December 31, 2013 \$
Opening balance	4,402,306	121,000
Issuance of units	-	3,681,372
Dividend Warrant liability acquired on reverse acquisition	-	2,041,680
Warrants issued for services	-	124,020
Change in fair value of unexercised warrants	1,599,349	(1,324,051)
Reclassification to equity upon exercise of warrants	(143,664 )	(241,715 )
Closing balance	5,857,991	4,402,306

#### 5 Stockholders' deficiency

##### Preferred stock

Authorized  
5,000,000 preferred shares, \$0.001 par value

Issued and outstanding at March 31, 2014 - 1 (December 31, 2013 - 1)

##### Common stock

Authorized  
200,000,000 common shares, \$0.001 par value

Issued and outstanding at March 31, 2014 – 32,082,132 (December 31, 2013 – 31,534,819).

The issued and outstanding common shares at March 31, 2014 include 7,169,583 shares of common stock on an as-exchanged basis with respect to the shares of Exchangeco that can be exchanged for shares of common stock of the Company.

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(expressed in US dollars unless otherwise noted)

	Shares of common stock outstanding	Common stock	Additional paid-in capital	Warrants
Balance – December 31, 2013	31,534,819	31,535	8,791,715	6,202,100
Exercise of Investor Warrants	277,313	277	221,573	-
Exercise of CDN \$0.50 unit warrants	20,000	20	17,580	-
Shares issued for services (a)	250,000	250	314,750	-
Reclassification of derivative liability to equity on exercise of warrants	-	-	126,064	-
Expiry of broker warrants	-	-	556	(556)
Stock-based compensation	-	-	275,772	-
Balance – March 31, 2014	32,082,132	32,082	9,748,010	6,201,544

a) Shares issued for services

During the quarter ended March 31, 2014 the Company issued 250,000 shares of common stock for services rendered to the Company. The shares issued for services have been valued using the closing price of the Company's common stock on the day the shares for services were issued. A total of \$315,000 in general and administrative expense has been recognized for these shares for the three months ended March 31, 2014.

The total share-based payment expense of \$620,074 (2013 - \$272,902), including stock option expense of \$305,074 (2013 - \$204,345), has been recognized for the three months ended March 31, 2014. This total expense has been recognized as to \$171,947 and \$448,127 for research and development, and general and administrative respectively for the three months ended March 31, 2014. The prior period expense of \$272,902 has been recognized as to \$152,480 and \$120,422 for research and development, and general and administrative respectively for the three months ended March 31, 2013.

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DelMar Pharmaceuticals, Inc.  
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Notes to Consolidated Condensed Interim Financial Statements  
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(expressed in US dollars unless otherwise noted)

### Stock Options

The following table sets forth the options outstanding:

	Number of stock options outstanding	Weighted average exercise price \$
Balance – March 31, 2014 and December 31, 2013	3,240,000	0.96

The following table summarizes stock options currently outstanding and exercisable at March 31, 2014:

Exercise price \$	Number outstanding at March 31, 2014	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at March 31, 2014	Exercise price \$
0.45	900,000	7.83	0.45	763,833	0.45
1.05	2,040,000	9.37	1.05	970,963	1.05
1.54	180,000	9.00	1.54	180,000	1.54
2.30	120,000	9.17	2.30	100,000	2.30
	3,240,000		0.96	2,014,796	0.93

Included in the number of stock options outstanding are 900,000 stock options granted at an exercise price of CDN \$0.50. The exercise prices shown in the above table have been converted to \$0.45 USD using the period ending closing exchange rate. Certain stock options have been granted to non-employees and will be revalued at each reporting date until they have fully vested. The stock options have been re-valued using a Black-Scholes pricing model using the following assumptions:

	March 31, 2014
Dividend rate	0 %
Volatility	72.8% to 75.5 %

Risk-free rate	1.25	%
Term - years	0.83 to 2.38	

The Company has recognized the following amounts as stock-based compensation expense for the periods noted:

	Three months ended March 31,	
	2014	2013
	\$	\$
Research and development	171,947	152,480
General and administrative	133,127	51,865
	305,074	204,345



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DelMar Pharmaceuticals, Inc.  
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(expressed in US dollars unless otherwise noted)

During the quarter ended March 31, 2013 the Company's functional currency changed from \$CDN to \$USD. As a result, certain stock options previously granted by the Company are now recognized as a long-term liability. Of the total stock option expense of \$305,074 (2013 - \$204,345), \$275,772 (2013 - \$20,846) has been recognized as additional paid in capital and \$29,302 (2013 - \$183,499) has been recognized as a stock option liability.

The aggregate intrinsic value of stock options outstanding at March 31, 2014 was \$1,008,330 (2013 - \$1,181,007) and the aggregate intrinsic value of stock options exercisable at March 31, 2014 was \$734,111 (2013 - \$764,760). As of March 31, 2014 there was \$273,996 in unrecognized compensation expense that will be recognized over the next 2.4 years. No stock options granted under the Plan have been exercised to March 31, 2014. Upon the exercise of stock options new shares will be issued.

A summary of status of the Company's unvested stock options under all plans is presented below:

	Number of Options	Weighted average exercise price \$	Weighted average grant date fair value \$
Unvested at December 31, 2013	1,679,371	1.08	0.59
Vested	(454,167 )	1.09	0.60
Unvested at March 31, 2014	1,225,204	1.07	0.59

Certain of the Company's warrants have been recognized as a derivative liability (note 5). The following table summarizes all of the Company's outstanding warrants as of March 31, 2014:

Description	Number
Balance – December 31, 2013	24,864,009
CDN \$0.50 unit warrants (i)	(2,189,000 )
Broker warrants(ii)	(5,000 )
Investor warrants (iii)	(277,313 )
Balance - March 31, 2014	22,392,696



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- i) Of the balance of 2,189,000 outstanding at December 31, 2013, 20,000 were exercised for no additional consideration and 2,169,000 expired on January 25, 2014.
- ii) Broker warrants with an exercise price of CDN \$0.50 expired on March 1, 2014. The fair value of the warrants of \$556 has been reclassified from warrants to additional paid in capital at March 31, 2014.
- iii) During the three months ended March 31, 2014, 277,313 warrants were exercised for 277,313 shares of common stock. The Company received proceeds of \$221,850 from the exercise.

6 Financial instruments

The Company has financial instruments that are measured at fair value. To determine the fair value, we use the fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use to value an asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs based on assumptions about the factors market participants would use to value an asset or liability. The three levels of inputs that may be used to measure fair value are as follows:

Level one - inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level two - inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and

Level three - unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company's financial instruments consist of cash and cash equivalents, other receivables, accounts payable, related party payables and derivative liability. The carrying values of cash and cash equivalents, other receivables, accounts payable and related party payables approximate their fair values due to the immediate or short-term maturity of these financial instruments.

As quoted prices for the derivative liability are not readily available, the Company has used a simulated probability valuation model, as described in note 2 to estimate fair value. The derivative liability utilizes Level 3 inputs as defined above.

The Company has the following liabilities under the fair value hierarchy:

	March 31, 2014		
Liability	Level 1	Level 2	Level 3
Derivative liability	-	-	5,857,991

December 31,  
2013

Liability	Level 1	Level 2	Level 3
Derivative liability	-	-	4,402,306

## 7 Subsequent events

## Warrant exercises

Subsequent to March 31, 2014, the Company issued 8,000 shares of common stock pursuant to the exercise of warrants. The warrants were exercised at CDN \$0.50 per warrant for proceeds of CDN \$4,000.

## Share issuance

Subsequent to March 31, 2014, the Company issued 250,000 shares of common stock for services to an unrelated company.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management Discussion and Analysis (“MD&A”) contains “forward-looking statements”, which represent our projections, estimates, expectations or beliefs concerning among other things, financial items that relate to management’s future plans or objectives or to our future economic and financial performance. In some cases, you can identify these statements by terminology such as “may”, “should”, “plans”, “believe”, “will”, “anticipate”, “estimate”, “expect” or “intend”, including their opposites or similar phrases or expressions. You should be aware that these statements are projections or estimates as to future events and are subject to a number of factors that may tend to influence the accuracy of the statements. These forward-looking statements should not be regarded as a representation by the Company or any other person that the events or plans of the Company will be achieved. You should not unduly rely on these forward-looking statements, which speak only as of the date of this MD&A. Except as may be required under applicable securities laws, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this MD&A or to reflect the occurrence of unanticipated events.

You should review the factors and risks we describe under “Risk Factors” in our report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 10, 2014. Actual results may differ materially from any forward-looking statement.

#### Overview

DelMar Pharmaceuticals, Inc. (the “Company”) is a Nevada corporation formed on June 24, 2009 under the name Berry Only Inc. Prior to the Reverse Acquisition (discussed below), the Company did not have any significant assets or operations. DelMar Pharmaceuticals, Inc. is the parent company of Del Mar Pharmaceuticals (BC) Ltd. (“DelMar (BC)”), a British Columbia, Canada corporation incorporated on April 6, 2010, which is a development stage company with a focus on the development of drugs for the treatment of cancer. The Company is also the parent company to 0959454 B.C. Ltd., a British Columbia corporation (“Calco”), and 0959456 B.C. Ltd., a British Columbia corporation (“Exchangeco”). Calco and Exchangeco were formed to facilitate the Reverse Acquisition.

Pursuant the Reverse Acquisition, the Company acquired (either directly or indirectly (through Exchangeco)) all of the issued and outstanding shares of DelMar (BC) on January 25, 2013. As a result of the shareholders of DelMar (BC) having a controlling interest in the Company subsequent to the Reverse Acquisition, for accounting purposes the transaction is a capital transaction with DelMar (BC) being the accounting acquirer even though the legal acquirer is Berry. Therefore, the historic financial statements of DelMar (BC) are presented as the comparative balances for the periods prior to the Reverse Acquisition.

References to the Company, “we”, “us”, and “our” refer to the Company and its wholly-owned subsidiaries, DelMar (BC), Calco and Exchangeco. References to Berry relate to the Company prior to the Reverse Acquisition.

Our drug discovery research and development focuses on identifying well-validated clinical and commercial-stage compounds and establishing a scientific rationale for development in modern orphan cancer indications. We conduct further research on promising candidates through our network of consultants and contract research organizations. This approach allows us to identify and advance potential drug candidates without significant investment in “wet lab” infrastructure. Based on this strategy, we acquired intellectual property and prototype drug product related to our lead drug candidate, VAL-083, from Valent Technologies LLC (“Valent”) in September 2010 and initiated new clinical trials in 2011.

#### Going Concern

For the three months ended March 31, 2014, the Company reported a net loss of \$3,198,607 and an accumulated deficit of \$19,063,113 at that date. As at March 31, 2014, the Company has cash and cash equivalents of \$3,474,150 and a working capital balance of \$3,313,942. The Company does not have the prospect of achieving any significant revenues in the immediate near future and the Company will require additional funding to maintain its research and development projects and for general operations. There is a large degree of uncertainty as to the expenses the Company will incur in developing and pursuing its business plan. In addition, the Company has not begun to generate revenues from any product candidate.

Consequently, management is pursuing various financing alternatives to fund the Company's operations so it can continue as a going concern in the medium to longer term. Accordingly, the Company is considered to be in the development stage as defined in Accounting Standards Codification (ASC) 915-10. We believe, based on our current estimates and plans we expect to have enough cash to fund our operations for the next 9 to 12 months. Management plans to secure the necessary financing through the issuance of new equity and/or the entering into of strategic partnership arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

The Company's financial statements have been prepared on a going concern basis which assumes that the Company will continue its operations for the foreseeable future and contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The conditions and risks noted above cast substantial doubt on the validity of that assumption. These financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary and could potentially be material, should the Company be unable to continue as a going concern.

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There could be material differences in our cost estimates or there can be unforeseen events, problems or delays will occur that would require us to seek additional debt and/or equity funding. The ability of the Company to meet its obligations and continue the research and development of its product candidate is dependent on its ability to continue to raise adequate financing. There can be no assurance that such financing will be available to the Company in the amount required at any time or for any period or, if available, that it can be obtained on terms satisfactory to the Company. The Company may tailor its drug candidate program based on the amount of funding it raises.

### VAL-083

Our lead product candidate, VAL-083, represents a “first in class” small-molecule chemotherapeutic. The molecular structure of VAL-083 is not an analogue or derivative of other small molecule chemotherapeutics approved for the treatment of cancer. VAL-083, which was originally discovered in the 1960’s, has been assessed in multiple clinical studies sponsored by the National Cancer Institute (“NCI”) in the United States as a treatment for various cancers including lung, brain, cervical, ovarian tumors and leukemia. Published pre-clinical and clinical data suggest that VAL-083 may be active against a range of tumor types. VAL-083 is approved as a cancer chemotherapeutic in China for the treatment of chronic myelogenous leukemia (“CML”) and lung cancer. VAL-083 has not been approved for any indications outside of China.

Upon obtaining regulatory approval, we intend to commercialize VAL-083 and other product candidates for the treatment of orphan cancer indications where patients have failed other therapies or have limited medical options. Orphan diseases are defined in the United States under the Rare Disease Act of 2002 as “any disease or condition that affects less than 200,000 persons in the United States”. The Orphan Drug Act of 1983 is a federal law that provides financial and other incentives including a period of market exclusivity to encourage the development of new treatments for orphan diseases.

We research the mechanism of action of our product candidates to determine the clinical indications best suited for therapy and attempt to rapidly advance our product candidates into human clinical trials and toward commercialization.

### Central Nervous System Cancers

In October 2011, we initiated clinical trials with VAL-083 as a potential new treatment for glioblastoma multiforme (“GBM”), the most common and aggressive form of brain cancer.

We have presented interim data from our clinical trials at peer-reviewed scientific meetings including the Society for NeuroOncology annual meeting (“SNO” – November, 2012), the American Association of Cancer Research (“AACR” – April 2013), the American Society for Clinical Oncology (“ASCO” – June 2013), the World Federation of NeuroOncology (“WFNO” – November, 2013) and AACR in April 2014. In summary, our interim clinical data support that VAL-083 at doses tested to date indicate that:

- VAL-083 is safe and well-tolerated by patients in doses tested to date;
- A maximum tolerated dose has not yet been reached;
- A portion of GBM patients who have failed other therapies demonstrate stable disease or tumor regression following treatment with VAL-083 and;
- Pharmacokinetic analysis demonstrates a dose-dependent plasma exposure.

These data support the further development of VAL-083.

In July 2013 the Company announced the opening of its third clinical trial site at the Brain Tumor Center at University of California, San Francisco (“UCSF”) and in August 2013 the Company received a notice of allowance from the United States Food and Drug Administration (“FDA”) enabling the Company to implement a more rapid dose-escalation scheme in our GBM study. The revised dosing regimen was allowed by the FDA following an extensive safety review of patients treated to date. In comparison to the original dose-escalation scheme, the revised plan will enable the trial to reach higher doses and complete the dose-escalation portion of the clinical trial more quickly by skipping two interim doses.



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A summary of our completed and proposed dose escalation scheme, as revised, is as follows:

Dose Escalation Scheme (mg/m <sup>2</sup> )		Patients Treated		Status
Original	Revised			
1.5	1.5	3		Completed – No dose limiting toxicity, or “DLT”
3.0	3.0	4	*	Completed – No DLT
5.0	5.0	10	*	Completed – No DLT
10.0	10.0	3		Completed – No DLT
15.0				
20.0	20.0	3		Completed – No DLT
25.0				
30.0	30.0	3		Completed – No DLT
n.a	40.0			Initiated May 2014
		3		
		(planned)		

\*Cohorts 2 and 3 were expanded to allow for patient demand and to gather additional data on CNS metastases patients.

During 2014 we plan to continue our clinical trials with VAL-083 as a potential treatment for GBM patients who have failed other therapies. Currently, there is no approved therapy for these patients. The goal of the current trial is to establish a modernized dosing regimen for advancement into registration directed trials in the United States as a potential new therapy for the treatment of refractory GBM.

### Lung Cancer

The activity of VAL-083 against solid tumors, including lung cancer, has been established in both pre-clinical and human clinical trials conducted by the NCI. Lung cancer is characterized as small cell and non-small cell lung cancer (“NSCLC”). NSCLC is the most common type of lung cancer. VAL-083 has demonstrated activity against NSCLC in laboratory studies. VAL-083 was also investigated in a number of clinical trials in the United States and Europe during the 1970s both as a stand-alone therapy and in combination with other chemotherapeutic regimens. VAL-083 has been approved by the Chinese Food and Drug Administration (“CFDA”) (formerly the State Food and Drug Administration) for the treatment of lung cancer in China. However, we believe that the use of the drug in the modern era has been limited by a preference for targeted therapies.

In November 2013, we presented non-clinical data which supports the potential utility of VAL-083 in the context of modern lung cancer therapy at the AACR-NCI-EORTC International Conference on Molecular Targets and Cancer Therapeutics Annual Meeting. In April 2014, we presented additional data at the AACR Annual Meeting demonstrating that VAL-083 may exhibit superior efficacy against NSCLC cell lines versus standard of care in an established murine (mouse) xenograft model.

We plan to establish a strong scientific and clinical rationale to support out-licensing activities to unlock the potential value of the drug in partnership with larger pharmaceutical companies with the resources and commercial infrastructure to effectively develop and launch a lung cancer product.

#### Additional Orphan Drug Indications

We have established a high-level scientific rationale for the development of VAL-083 in additional high-value orphan cancer indications. Hematologic cancers such as chronic myelogenous leukemia (“CML”), acute myeloid leukemia (“AML”) are of particular interest based on published human clinical data and lack of effective therapeutic options. We have initiated preliminary discussions with leading cancer researchers regarding the development of a clinical strategy for the development of VAL-083 in hematologic cancers.

In addition to our clinical development activities in the United States, we have obtained certain exclusive commercial rights to VAL-083 in China. In October 2012, we announced that we had entered into a collaboration agreement with the only manufacturer licensed by the Chinese State Food and Drug Administration to produce the product for the China market. This agreement provides us with certain exclusive commercial rights related to drug supply, which positions us with the potential to generate near-term revenue through product sales or royalties for the drug’s approved indications in China while we seek global approval in new indications. Our strategy in China is to develop new clinical and non-clinical data in collaboration with leading cancer researchers to demonstrate the utility of VAL-083 in the treatment of CML and lung cancer, particularly for patients who do not respond to, or cannot access, modern treatments such as tyrosine kinase inhibitors. Management believes the data, if favorable, will allow the repositioning of VAL-083 in the China market, and eventually global markets, for the treatment of hematologic cancers and solid tumors. We anticipate seeking a marketing partner for VAL-083 in China in order to obtain royalty revenue from that market.

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We have filed a broad portfolio of new patent applications to protect our intellectual property. Our patent applications claim compositions and methods related to the use of VAL-083 and related compounds as well as methods of synthesis and quality controls for the manufacturing process of VAL-083. In July 2013, our first patent in the United States claiming methods of synthesis for VAL-083 was issued by the United States Patent Office. We continue to prosecute patent cases in the United States and international jurisdictions.

In addition to new patent filings, we intend to seek orphan drug protection and other statutory protection for our intellectual property. In February, 2012, we announced that VAL-083 has been granted Orphan Drug protection for the treatment of glioma, including GBM by the FDA in the United States. In January 2013, the European Medicines Association (“EMA”) granted Orphan Drug protection to VAL-083. The orphan drug designation means that we may sell VAL-083 as a treatment for GBM without competition for seven years in the United States and for ten years in the European Union following market approval, in respect of a medicinal product containing a similar active substance for the same indication.

Drugs granted orphan drug protection generally follow the same regulatory development path as any other pharmaceutical product. However, incentives such as scientific advice and reduction or waiver of registration fees and access to specialized grant funding may be available to support and accelerate development of orphan drug candidates.

### Developing Partnerships with Pharmaceutical Companies

#### Guangxi Wuzhou Pharmaceutical Company

We have a strategic collaboration with Guangxi Wuzhou Pharmaceutical Company (“Guangxi Wuzhou Pharmaceuticals”), a subsidiary of publicly traded Guangxi Wuzhou Zhongheng Group Co., Ltd for the development of VAL-083 (marketed as “DAG” in China). Guangxi Wuzhou Pharmaceuticals has received regulatory approval by the CFDA to manufacture and sell VAL-083 in China as a cancer chemotherapy for the treatment of CML and lung cancer.

We are party to a memorandum of understanding and collaboration agreement, dated October 25, 2012 (the “Guangxi Agreement”), with Guangxi Wuzhou Pharmaceuticals. Pursuant to the Guangxi Agreement, we granted to Guangxi Wuzhou Pharmaceuticals a royalty-free license to certain of our intellectual property, as it relates to quality control and drug production methods for VAL-083, and we agreed that Guangxi Wuzhou Pharmaceuticals will be our exclusive supplier of VAL-083 for clinical trials and sales for the China, United States, Canadian and European markets, subject to Guangxi Wuzhou Pharmaceuticals obtaining and maintaining cGMP certification by the FDA, EMEA or other applicable regulatory agencies, and Guangxi Wuzhou Pharmaceuticals being able to meet volumes ordered by us. Guangxi Wuzhou Pharmaceuticals agreed that it may not sell VAL-083 for markets outside of China to any other purchaser other than us. In addition, Guangxi Wuzhou Pharmaceuticals granted us a pre-emptive right (subject to our acceptance of proposed sales volume and prices) to purchase VAL-083 produced by Guangxi Wuzhou Pharmaceuticals. The collaboration under the Guangxi Agreement establishes an exclusive supply relationship between us and Guangxi Wuzhou Pharmaceuticals to include the Chinese market and all markets outside China. DelMar and Guangxi Wuzhou Pharmaceuticals will work together to ensure the product specifications meet global standards in order to accelerate international development and regulatory approval. Subject to meeting and maintaining cGMP certification, Guangxi Wuzhou Pharmaceuticals will be our exclusive supplier of DAG for injection for clinical development and commercial sales.

The Company and Guangxi Wuzhou Pharmaceuticals plan to develop new clinical data to expand the market in China and to seek regulatory approval for the drug in multiple indications on a global basis. The companies have formed a clinical advisory board to oversee clinical studies. Guangxi Wuzhou Pharmaceuticals will provide funding support for

clinical trials conducted in China and we will be responsible for development and commercialization. We are currently seeking to establish a separate collaboration for the distribution, sales and marketing of VAL-083 in China.

The term of the Guangxi Agreement (except as it relates to the exclusive rights in the China market) is indefinite, subject to termination upon written agreement of all parties, or if either party breaches any material term and fails to remedy such breach within 30 days of receipt of notice of the breach, or if any action to be taken thereunder is not agreed to by both parties, provided that such matter is referred to the chief executive officer of both parties, and they are unable to resolve such matter within 90 days. No payments have been made to date under the Guangxi Agreement.

The protection of intellectual property rights in China (where VAL-083 is manufactured pursuant to the Guangxi Agreement with the only manufacturer presently licensed by the SDFA to produce the product for the China market, and where VAL-03 is approved for the treatment of CML and lung cancer) is relatively weak compared to the United States, which may negatively affect our ability to generate revenue from VAL-083.

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## Reverse Acquisition

On January 25, 2013 (the “Closing Date”), the Company entered into and closed an exchange agreement (the “Exchange Agreement”), with DelMar (BC), Callco, Exchangeco, and the securityholders of DelMar (BC). Pursuant to the Exchange Agreement, (i) the Company issued 4,340,417 shares of common stock (the “Parent Shares”) to the shareholders of DelMar (BC) who are United States residents (the “U.S. Holders”) in exchange for the transfer to Exchangeco of all 4,340,417 outstanding common shares of DelMar (BC) held by the U.S. Holders, (ii) the shareholders of DelMar (BC) who are Canadian residents (the “Canadian Holders”) received, in exchange for the transfer to Exchangeco of all 8,729,583 outstanding common shares of DelMar (BC) held by the Canadian Holders, 8,729,583 exchangeable shares (the “Exchangeable Shares”) of Exchangeco, and (iii) outstanding warrants to purchase 3,360,000 common shares of DelMar (BC) and outstanding options to purchase 1,020,000 common shares of DelMar (BC) were deemed to be amended such that, rather than entitling the holder to acquire common shares of DelMar (BC), such options and warrants will entitle the holders to acquire shares of common stock of the Company. The Canadian Holders will be entitled to require Exchangeco to redeem (or, at the option of the Company or Callco, to have the Company or Callco purchase) the Exchangeable Shares, and upon such redemption or purchase to receive an equal number of shares of common stock of the Company. The aggregate of 13,070,000 shares of common stock of the Company issued to the former shareholders of DelMar (BC) (on an as-exchanged basis with respect to the Exchangeable Shares) represented 80.1% of the outstanding shares of common stock of the Company following the closing of the Exchange Agreement (the “Reverse Acquisition”).

Upon completion of the Reverse Acquisition DelMar (BC) became a wholly-owned subsidiary of the Company. As a result of the shareholders of DelMar (BC) having a controlling interest in the Company subsequent to the Reverse Acquisition, for accounting purposes the transaction is a capital transaction with DelMar (BC) being the accounting acquirer even though the legal acquirer is Berry. No goodwill is recorded with respect to the transaction as it does not constitute a business combination. For accounting purposes, the transaction is reflected as a recapitalization of DelMar (BC) and consideration for the Reverse Acquisition was deemed to be the fair value of the shares that were issued by DelMar (BC) to acquire the net liabilities of Berry on January 25, 2013. The net identifiable liabilities of Berry on the Closing Date of the Reverse Acquisition were as follows:

Net liabilities (derivative liability)	\$2,041,680
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The Company determined the fair value of the shares issued on the Reverse Acquisition to be \$1,690,004. As a result of the Reverse Acquisition being treated as a recapitalization of DelMar (BC) the Company recognized the loss of \$3,731,684 incurred upon the closing of the Reverse Acquisition as an adjustment to opening deficit in the consolidated statement of stockholder’s deficiency at December 31, 2013.

## Unit Offering

In connection with the Reverse Acquisition, on January 25, 2013, January 31, 2013, February 8, 2013, February 21, 2013, February 28, 2013, March 1, 2013, and March 6, 2013, the Company entered into and closed a series of subscription agreements with accredited investors (the “Investors”), pursuant to which the Company issued an aggregate of 13,125,002 Units at a purchase price of \$0.80 per Unit, for aggregate gross proceeds of \$10,500,000 (the “Private Offering”). Each Unit consists of one share of common stock and one five-year warrant (the “Investor Warrants”) to purchase one share of common stock at an exercise price of \$0.80. The exercise price of the Investor Warrants is subject to adjustment in the event that the Company sells common stock at a price lower than the exercise price, subject to certain exceptions. The Investor Warrants are redeemable by the Company at a price of \$0.001 per Investor Warrant at any time subject to the conditions that (i) the Company’s common stock has traded for twenty (20) consecutive trading days with a closing price of at least \$1.60 per share with an average trading volume of 50,000 shares per day and (ii) the underlying shares of common stock are registered.

The Company retained Charles Vista, LLC (the “Placement Agent”) as the Placement Agent for the Private Offering. The Company paid the Placement Agent a cash fee of \$1,050,000 (equal to 10% of the gross proceeds), a non-accountable expense allowance of \$315,000 (equal to 3% of the gross proceeds), and a one-year consulting fee of \$60,000. In addition, the Company incurred other closing costs of approximately \$500,000 resulting in net proceeds to the Company of \$8,575,000. Certain of the additional closing costs were not eligible to be treated as share issue costs and as a result they have been expensed. Net unit proceeds per the consolidated statements of cash flows include gross unit proceeds less cash issue costs attributable to the common stock only. The portion of the unit issue costs attributable to the derivative liability has been expensed.

In addition, the Company issued to the Placement Agent five-year warrants (the “Placement Agent Warrants”) to purchase 5,250,000 shares of common stock (equal to 20% of the shares of common stock (i) included as part of the Units sold in the Private Offering and (ii) issuable upon exercise of the Investor Warrants) at an exercise price of \$0.80, exercisable on a cash or cashless basis.

The Company will pay a warrant commission of 5% of the amount of funds raised by an agent upon the exercise of the Investor Warrants following such redemption.

Certain of the Private Offering costs were incurred by the Company prior to December 31, 2012. These costs of \$90,771 were treated as share issue costs during the three months ended March 31, 2013.

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### Related Parties

The Company acquired its VAL-083 prototype drug, patents and technology rights from Valent. In addition, Valent has incurred a significant portion of the Company's clinical expenses during the periods ended December 31, 2011 and 2012 and has in turn invoiced the Company for those expenses. One of the Company's officers and directors is also a Principal of Valent and as result Valent is a related party to the Company.

The following related party transactions and balances have been recorded by the Company.

During the three months ended March 31, 2014

Pursuant to consulting agreements with the Company's officers the Company pays a total of \$32,000 per month in cash compensation to its officers. Pursuant to these agreements the Company recognized a total of \$96,000 in compensation expense.

Included in accounts payable at March 31, 2014 is an aggregate amount owing of \$35,798 (December 31, 2013 - \$74,754) to the Company's officers and directors for fees and expenses. The Company pays related party payables incurred for fees and expenses under normal commercial terms.

The Company paid \$24,000 in directors' fees.

During the three months ended March 31, 2013

Pursuant to consulting agreements with the Company's officers and directors the Company pays a total of \$36,784 per month to its officers and directors. Pursuant to these agreements the Company recognized a total of \$110,352 in compensation expense.

On January 25, 2013, in connection with the Reverse Acquisition, Valent was issued 1,150,000 shares of common stock of the Company in exchange for Valent reducing certain future royalties under its Assignment Agreement with the Company. As a result of the share issuance the Company has recognized an expense of \$598,000.

### Derivative Liability

The Company has issued stock purchase warrants. Based on the terms of certain of these warrants the Company determined that the warrants are a derivative liability which is recognized at fair value at the date of the transaction and re-measured at fair value every reporting period with gains or losses on the changes in fair value recorded in the consolidated condensed interim statement of loss and comprehensive loss.

### CDN \$0.50 Unit Warrants

The Company issued 4,150,000 units on January 23, 2012, 560,000 on February 27, 2012 and 50,000 on May 10, 2012. In addition, during the year ended December 31, 2011 the Company issued 500,000 units on October 3, 2011, 100,000 on October 7, 2011, and 50,000 on November 11, 2011. In total, the Company issued 5,410,000 units for services in settlement of accounts payable and cash proceeds for an aggregate of \$2,671,923 (CDN \$2,705,000).

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The proceeds from the issuance of 3,000,000 of these units were held in escrow pursuant to an exclusive option investment agreement with a strategic investor. Subsequently, the Company elected to let the option expire and the related units were cancelled and the funds returned from escrow to the subscriber in order for the Company to retain control over certain intellectual property and commercial rights.

During the three months ended March 31, 2014, 20,000 warrants were exercised for no additional consideration for 20,000 shares of common stock. As a result, \$17,600 of the derivative liability has been reclassified to equity. The warrants that have been exercised were revalued at their exercise date and then the reclassification to equity was recorded.

The remaining 2,169,000 warrants expired on January 25, 2014. As of March 31, 2014 there are no CDN \$0.50 unit warrants outstanding.

### Investor Warrants

As discussed above, in connection with the Reverse Acquisition, , the Company entered into and closed a series of subscription agreements with accredited investors (the “Investors”), pursuant to which the Company issued an aggregate of 13,125,002 Units at a purchase price of \$0.80 per Unit, for aggregate gross proceeds of \$10,500,000 (the “Private Offering”). Each Unit consists of one share of common stock and one five-year warrant (the “Investor Warrants”) to purchase one share of common stock at an exercise price of \$0.80

During the three months ended March 31, 2014, 277,313 warrants were exercised for 277,313 shares of common stock. The Company received proceeds of \$221,850 from the exercises. As a result, \$126,064 of the derivative liability has been reclassified to equity. The warrants that have been exercised were revalued at their exercise date and then the reclassification to equity was recorded.

### Dividend Warrants

As a result of the Reverse Acquisition warrants that Berry issued pursuant to a warrant dividend became warrants of the Company (the “Dividend Warrants”). The Dividend Warrants are exercisable at \$1.25 per share until January 24, 2018. The Dividend Warrants are exercisable only at such times as the underlying shares of common stock are registered. The Dividend Warrants will be redeemable by the Company at a price of \$0.001 per Dividend Warrant at any time commencing 18 months following the date of issuance subject to the conditions that (i) the Company’s common stock has traded for twenty (20) consecutive trading days with a closing price of at least \$2.50 per share and (ii) the underlying shares of common stock are registered. Subject to the conditions set forth therein, the Dividend Warrants may be redeemed by the Company upon not less than sixty (60) days nor more than ninety (90) days prior written notice.

### Warrants issued for services

The Company has issued 300,000 warrants for services. The warrants were issued on September 12, 2013 and are exercisable on a cashless basis at an exercise price of \$1.76 for five years.

The Company’s derivative liability is summarized as follows:

	March 31,	December
	2014	31,
		2013
	\$	\$



Opening balance	4,402,306	121,000
Issuance of units	-	3,681,372
Dividend Warrant liability acquired on reverse acquisition	-	2,041,680
Warrants issued for services	-	124,020
Change in fair value of unexercised warrants	1,599,349	(1,324,051)
Reclassification to equity upon exercise of warrants	(143,664 )	(241,715 )
Closing balance	5,857,991	4,402,306

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## Selected Quarterly Information

The financial information reported here in has been prepared in accordance with US GAAP. The Company's functional currency at March 31, 2014 is the USD. The following table represents selected financial information for the Company as of March 31, 2014 and December 31, 2013.

## Selected Balance Sheet Data

	March 31, 2014 \$	December 31, 2013 \$
Cash and cash equivalents	3,474,150	4,136,803
Working capital	3,313,942	4,069,261
Total Assets	3,754,153	4,318,748
Derivative liability	5,857,991	4,402,306
Total shareholder's deficiency	(3,060,299)	(817,978 )

## Comparison of the three months ended March 31, 2014 and 2013

The following table represents selected financial information for the Company for the three months ended March 31, 2014 and March 31, 2013.

	Three Months Ended March 31, 2014 \$	March 31 2013 \$	Change \$	Change %
Research and development	618,869	631,947	(13,078 )	(2 )
General and administrative	966,923	920,377	46,546	5
Change in fair value of derivative liability	1,599,349	2,543,574	(944,225 )	(37 )
Shares issued to Valent for future royalty reduction	-	598,000	(598,000 )	(100 )
Derivative issue costs	-	2,713,220	(2,713,220)	(100 )
Foreign exchange loss (gain)	11,947	(3,754 )	15,701	(418 )
Interest expense	2,015	1,955	60	3
Interest income	(496 )	-	(496 )	(100 )
Net loss	3,198,607	7,405,319	(4,206,712)	

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	Three Months Ended			
	March 31, 2014	March 31, 2013	Change	Change
	\$	\$	\$	%
Research and development	618,869	631,947	(13,078 )	(2 )
Share-based compensation included in research and development	(171,947 )	(152,480 )	(19,467 )	13
Research and development net of share-based compensation	446,922	479,467	(32,545 )	
General and administrative	966,923	920,377	46,546	5
Share-based compensation included in general and administrative	(448,127 )	(120,422 )	(327,705 )	(272 )
General and administrative net of share-based compensation	518,796	799,955	(281,159 )	

## Research and Development

Research and development expenses decreased to \$618,869 for the three months ended March 31, 2014 from \$631,947 for the three months ended March 31, 2013. The increase was partially attributable to an increase in share-based payments to \$171,947 for the three months ended March 31, 2014 compared to \$152,480 for the three months ended March 31, 2013. In relation to research and development during the three months ended March 31, 2014 and 2013 the Company recognized share-based payment expense relating to the measurement of stock options granted in prior periods. The increase relating to stock option expense was due to more stock options being outstanding at March 31, 2014 compared to March 31, 2013. The effect of there being more stock options outstanding during the current period than the prior period was partially offset by a decrease in the Company's share price during the three months ended March 31, 2014 compared to the three months ended March 31, 2013.

After considering the impact of share-based payments, research and development expenses decreased in the three months ended March 31, 2014 to \$446,922 from \$479,467 for the three months ended March 31, 2013. The largest portion of the non-share-based payment component of research and development for the quarter ended March 31, 2014 was clinical development costs as the Company continued its Phase I/II clinical trial with VAL-083. The clinical development costs were lower in the current quarter compared to the prior quarter largely due to the timing of patient enrollment. Intellectual property costs have decreased in the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to the timing of the filing and advancement of patent matters. In addition, travel costs decreased during the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to fewer trips for senior science staff. In the prior quarter, senior science staff travelled extensively to make scientific presentations in support of the Company's efforts to complete its Reverse Acquisition financing. Partially offsetting the impact of lower clinical, intellectual property, and travel costs were higher pre-clinical costs in the current quarter compared to the prior quarter. Preclinical expenses were higher in the three months ended March 31, 2014 compared to the three months ended March 31, 2013 as the Company has begun to incur costs associated with advancing its NSCLC program as well as continuing its mechanism of action elucidation for VAL-083.

## General and Administrative

General and administrative expenses were \$966,923 for the three months ended March 31, 2014 compared to \$920,377 for the three months ended March 31, 2013. The increase was largely attributable to an increase in share-based payments to \$448,127 in the three months ended March 31, 2014 compared to \$120,422 for the three months ended March 31, 2013. In relation to general and administrative expenses during the three months ended March 31, 2014 and 2013 the Company incurred share-based payments relating to the measurement of stock options granted in prior periods and for shares issued for services. For the three months ended March 31, 2014 the expense recognized for shares issued for services was higher than for the three months ended March 31, 2013. In addition, the increase relating to stock option expense was due to more stock options being outstanding at March 31, 2014 compared to March 31, 2013. The effect of there being more stock options outstanding during the current period than the prior period was partially offset by a decrease in the Company's share price during the three months ended March 31, 2014 compared to the three months ended March 31, 2013.

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After considering the impact of share-based payments, general and administrative expenses decreased in the three months ended March 31, 2014 to \$518,796 from \$799,955 for the three months ended March 31, 2013. The principal reason for the decrease was due to professional fees relating to legal, accounting, investor relations, and business development. As a result of the Company becoming public due to its Reverse Acquisition during the three months ended March 31, 2013, the Company incurred significant one-time professional fees that were not incurred during the current quarter. Partially offsetting the lower professional fees in the current quarter were higher travel, and office and sundry expenses. Travel increased during the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to the attendance at more conferences and investor meetings in 2014 compared to 2013. Office and sundry increased for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 largely due an increase in insurance, and filing and related fees.

### Change in fair value of derivative liability

Based on the terms of certain warrants issued by the Company, the Company determined that the warrants were a derivative liability which is recognized at fair value at the date of the transaction and re-measured at fair value every reporting period with gains or losses on the changes in fair value recorded in the consolidated condensed interim statement of loss and comprehensive loss.

The Company recognized a loss of \$1,599,349 from the change in fair value of the derivative liability for the three months ended March 31, 2014 compared to a loss of \$2,543,574 for the three months ended March 31, 2013. The balances recognized during the three months ended March 31, 2014 and March 31, 2013 depend on a number of factors and assumptions including volatility assumptions and the Company's common stock price between the date the warrants were last valued and respective reporting dates.

Changes in the Company's common stock price can result in significant volatility in the Company's reported net loss due to its impact on the fair value of the derivative liability. As a result of revaluation gains and losses, it is expected that the Company's reported net income or loss will continue to experience large fluctuations.

### Issuance of Shares to Valent for future royalty reduction

On January 25, 2013, in connection with the Reverse Acquisition, the Company issued to Valent 1,150,000 shares of common stock in exchange for Valent agreeing to the reduction of certain future royalties payable to Valent under the Assignment Agreement. As a result of the share issuance the Company has recognized an expense of \$598,000 for the three months ended March 31, 2013.

### Derivative issue costs

The proceeds from the \$0.80 unit offering have been allocated between common stock and derivative liability based on the respective fair values of the shares of common stock and the warrants on the issuance date. Additionally, the unit issue costs have also been allocated between common stock and derivative liability on the same pro rata basis as the proceeds. The portion of the issue costs allocated to the derivative liability has been expensed in the consolidated statement of loss and comprehensive loss. The Company recognized \$2,713,220 in derivative issue costs for the three months ended March 31, 2013.

### Foreign Exchange Gain

The Company's functional currency at March 31, 2014 is the USD but the Company incurs a portion of its expenses in CDN. The foreign exchange gains and losses are reported in other (income) loss in the consolidated condensed

interim statement of loss and comprehensive loss.

The Company recognized a foreign exchange loss of \$11,947 for the quarter ended March 31, 2014 compared to a gain of \$3,754 for the quarter ended March 31, 2013. The change was due to changes in the exchange rate between the CDN and the USD and to varying levels of CDN accounts payable.

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## Interest Expense

Pursuant to a loan agreement dated February 3, 2011, the Company has received a loan from Valent in the amount of \$250,000 for the purchase of the prototype drug product. The loan is payable on demand, unsecured and bears interest at 3.00% per year. As a result of the loan payable the Company recognized \$2,015 and \$1,955 respectively in accrued interest for the three months ended March 31, 2014 and 2013.

## Liquidity and Capital Resources

Three months ended March 31, 2014 compared to the three months ended March 31, 2013

	March 31, 2014 \$	March 31, 2013 \$	Change \$	Change %
Cash used in operating activities	(884,503 )	(2,124,467)	1,239,964	(58 )
Cash flows from financing activities	221,850	9,639,520	(9,417,670)	(98 )

Comparison of cash flow for the three months ended March 31, 2014 compared to the three months ended March 31, 2013

## Operating Activities

Net cash used in operating activities decreased to \$884,503 for the three months ended March 31, 2014 from \$2,124,467 for the three months ended March 31, 2013. The decrease was largely the result of a decrease in the net loss to \$3,198,607 for the three months ended March 31, 2014 compared to \$7,405,319 for the three months ended March 31, 2013. Partially offsetting the impact of the lower net loss were non-cash items totaling \$2,221,438 incurred in the current period consisting of accrued loan interest, change in the fair value of the derivative liability and share-based payments. The non-cash items for the three months ended March 31, 2013 were significantly higher and totaled \$5,617,439 and consisted of accrued loan interest, change in the fair value of the derivative liability, expense related to shares issued to Valent for the future royalty reduction, non-cash derivative issue costs, and share-based payments. The most significant changes in non-cash working capital for the three months ended March 31, 2014 were an inflow from the increase in accounts payable and accrued liabilities of \$263,956 and an outflow of \$98,701 for the payment of prepaid expenses. In the three months ended March 31, 2013 there were outflows of \$151,718 and \$98,722 from increases in accounts payable and accrued liabilities, and related party payables respectively.

As a result of the Company's expectations as to the timing of the repayment of the Valent loan, the Company has presented the full loan and accrued interest balance as a long-term liability at March 31, 2014 and December 31, 2013.

## Financing Activities

The only financing activities for the three months ended March 31, 2014 was the receipt of \$221,850 in proceeds from the exercise of 277,313 \$0.80 Investor Warrants. During the three months ended March 31, 2013 the Company received \$9,639,520 in net proceeds from the issuance of units. The net cash proceeds from the unit financing were \$8,575,000. However, as a result of a portion of the unit proceeds and issue costs being accounted for as a derivative liability the net proceeds on the condensed consolidated statement of cash flows is \$9,639,520. During the three months ended March 31, 2013 certain of the additional closing costs were not eligible to be treated as share issue costs and as a result they have been expensed. Net unit proceeds per the condensed consolidated interim statements of cash flows include gross unit proceeds less cash issue costs attributable to the shares only. The portion of the unit issue

costs attributable to the derivative liability has been expensed.

The units issued in the three months ended March 31, 2013 were the \$0.80 units issued in conjunction with the Reverse Acquisition.



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### Operating Capital and Capital Expenditure Requirements

Liquidity and capital resources (also see 'Going Concern' section)

Our future funding requirements will depend on many factors, including but not limited to:

- the rate of progress and cost of our clinical trials, preclinical studies and other discovery and research and development activities;
- the costs associated with establishing manufacturing and commercialization capabilities;
- the costs of acquiring or investing in businesses, product candidates and technologies;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs and timing of seeking and obtaining FDA and other regulatory approvals;
- the effect of competing technological and market developments; and
- the economic and other terms and timing of any collaboration, licensing or other arrangements into which we may enter.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings or strategic collaborations. Although we are not reliant on institutional credit finance and therefore not subject to debt covenant compliance requirements or potential withdrawal of credit by banks, the current economic climate has also impacted the availability of funds and activity in equity markets. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs or make changes to our operating plan. In addition, we may have to seek partnerships for one or more of our product candidate programs at an earlier stage of development, which would lower the economic value of those programs to us.

### Critical Accounting Policies

The preparation of financial statements, in conformity with generally accepted accounting principles in the United States, requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain and therefore actual results may differ from those estimates.

A detailed summary of all of the Company's significant accountings policies and the estimates derived therefrom is included in Note 2 to the Company's Financial Statements for the year ended December 31 2013. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies and the estimates derived therefrom have been identified as being critical:

- Shares for services
- Stock options

· Derivative liability

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### Shares for services

The Company has issued equity instruments for services provided by employees and nonemployees. The equity instruments are valued at the fair value of the instrument granted (see notes 6 and 7 of the consolidated financial statements for assumptions).

In prior periods the Company transferred shares from the DelMar Employee Share Purchase Trust (the “Trust”) to consultants and management in exchange for services rendered to the Company. The Company recognizes the fair value of the shares transferred as an expense with a corresponding increase in common stock. The shares reserved for issuance to consultants and management that are held by the Trust are included in the financial statements at year end. There are no other assets in the Trust. The number of shares outstanding for issue from the Trust at December 31, 2013 is nil (December 31, 2012 – nil).

The shares transferred from the Trust in prior periods have been valued using the fair value of the shares transferred. The Company has used recent share transactions in order to determine the fair value of the shares transferred from the Trust.

### Stock options

The Company accounts for these awards under ASC 718, “Compensation - Stock Compensation” (“ASC 718”). ASC 718 requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the requisite service period for awards expected to vest. Compensation expense for unvested options to non-employees is revalued at each period end and is being amortized over the vesting period of the options. The determination of grant-date fair value for stock option awards is estimated using the Black-Scholes model, which includes variables such as the expected volatility of the Company’s share price, the anticipated exercise behavior of its grantee, interest rates, and dividend yields. These variables are projected based on the Company’s historical data, experience, and other factors. Changes in any of these variables could result in material adjustments to the expense recognized for share-based payments. Such value is recognized as expense over the requisite service period, net of estimated forfeitures, using the straight-line attribution method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from current estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including type of awards granted, employee class, and historical experience. Actual results and future estimates may differ substantially from current estimates.

### Derivative liability

The Company accounts for certain warrants under the authoritative guidance on accounting for derivative financial instruments indexed to, and potentially settled in, a company’s own stock, on the understanding that in compliance with applicable securities laws, the warrants require the issuance of securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. The Company classifies warrants in its balance sheet as a derivative liability which is fair valued at each reporting period subsequent to the initial issuance. As quoted prices for the derivative liability are not available, the Company uses a simulated probability valuation model to value the warrants. Determining the appropriate fair-value model and calculating the fair value of warrants requires considerable judgment. Any change in the estimates used may cause the value to be higher or lower than that reported. The estimated volatility of the Company’s common stock at the date of issuance, and at each subsequent reporting period, is based on the historical volatility of similar life sciences companies. The risk-free interest rate is based on rates published by the government for bonds with a maturity similar to the expected remaining life of the warrants at the valuation date. The expected life of the warrants is assumed to be equivalent to their remaining contractual term.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable for a smaller reporting company.

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### Item 4. Controls and Procedures.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (the “SEC”) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this Quarterly Report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and also are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

There are no legal proceedings to which the Company or any of its property is the subject.

### Item 1A. Risk Factors.

Not applicable to a smaller reporting company.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended March 31, 2014, the Company issued 20,000 shares of common stock upon exercise of warrants for no additional consideration.

During the three months ended March 31, 2014, the Company issued 250,000 shares of common stock for services rendered to the Company.

During the three months ended March 31, 2014, the Company issued 277,313 shares of common stock were issued upon exercise of warrants for aggregate gross proceeds of \$221,850.

In connection with the foregoing, the Company relied on the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering.

Item 3. Defaults Upon Senior Securities.

None.

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Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

No.	Description
<u>31.1</u>	<u>Rule 13a-14(a)/ 15d-14(a) Certification of Chief Executive Officer</u>
<u>31.2</u>	<u>Rule 13a-14(a)/ 15d-14(a) Certification of Chief Financial Officer</u>
<u>32.1</u>	<u>Section 1350 Certification of Chief Executive Officer</u>
<u>32.2</u>	<u>Section 1350 Certification of Chief Financial Officer</u>
EX-101.INS	XBRL INSTANCE DOCUMENT
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DelMar Pharmaceuticals, Inc.

Date: May 15, 2014

By: /s/ Jeffrey Bacha  
Jeffrey Bacha  
Chief Executive Officer (Principal  
Executive Officer)

Date: May 15, 2014

By: /s/ Scott Prail  
Scott Prail  
Chief Financial Officer (Principal  
Financial and Accounting Officer)