

DelMar Pharmaceuticals, Inc.
Form 10-Q
February 10, 2017

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 December 31, 2016

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: 001-37823

DelMar Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

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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

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.

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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, 10,602,458 shares of common stock are issued and outstanding as of February 9, 2017.

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PART 1. - FINANCIAL INFORMATION

Item 1. Financial Statements.

DelMar Pharmaceuticals, Inc.

Consolidated Condensed Interim Financial Statements

(Unaudited)

For the six months ended December 31, 2016

(expressed in US dollars unless otherwise noted)

DelMar Pharmaceuticals, Inc.

Consolidated Condensed Interim Balance Sheets

(Unaudited)

(expressed in US dollars unless otherwise noted)

	Note	December 31, 2016 \$	June 30, 2016 \$
Assets			
Current assets			
Cash and cash equivalents		3,417,377	6,157,264
Taxes and other receivables		17,988	18,387
Prepaid expenses		130,790	144,131
		3,566,155	6,319,782
Intangible assets - net		28,301	36,017
		3,594,456	6,355,799
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		515,633	584,002
Related party payables	4	205,381	43,444
		721,014	627,446
Stock option liability	6	-	175,875
Derivative liability	5	171,211	693,700
		892,225	1,497,021
Stockholders' accumulated equity			
Preferred stock			
Authorized			
5,000,000 shares, \$0.001 par value			

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Issued and outstanding			
278,530 Series A shares at December 31, 2016 (June 30, 2016 – 278,530)	3,6	278,530	278,530
889,863 Series B shares at December 31, 2016 (June 30, 2016 – 902,238)	6	6,207,923	6,294,255
1 special voting share at December 31, 2016 (June 30, 2016 – 1)		-	-
Common stock			
Authorized			
50,000,000 shares, \$0.001 par value			
11,485,219 issued at December 31, 2016 (June 30, 2016 – 11,187,023)	6	11,485	11,187
Additional paid-in capital	6	30,821,094	28,833,105
Warrants	6	1,683,424	1,658,382
Accumulated deficit		(36,321,403)	(32,237,859)
Accumulated other comprehensive income		21,178	21,178
		2,702,231	4,858,778
		3,594,456	6,355,799

Going concern, nature of operations, and corporate history (note 1)

Subsequent events (note 9)

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

DelMar Pharmaceuticals, Inc.

Consolidated Condensed Interim Statement of Loss and Comprehensive Loss

(Unaudited)

(expressed in US dollars unless otherwise noted)

	Note	Three months ended December 31, 2016 \$	Three months ended December 31, 2015 \$	Six months ended December 31, 2016 \$	Six months ended December 31, 2015 \$
Expenses					
Research and development	4	1,120,910	789,187	1,853,639	1,393,032
General and administrative	4	571,286	890,672	1,887,925	1,364,697
		1,692,196	1,679,859	3,741,564	2,757,729
Other loss (income)					
Change in fair value of stock option and derivative liabilities	6	(361,668)	680,188	(135,980)	1,219,634
Change in fair value of derivative liability due to change in warrant terms	6	-	242,400	-	263,965
Foreign exchange		(8,495)	44,253	6,829	26,780
Interest income		(60)	(10)	(101)	(30)
		(370,223)	966,831	(129,252)	1,510,349
Net and comprehensive loss for the period		1,321,973	2,646,690	3,612,312	4,268,078
Computation of basic loss per share					
Net and comprehensive loss for the period		1,321,973	2,646,690	3,612,312	4,268,078
Series B Preferred stock dividend		159,756	-	467,054	-
Net and comprehensive loss available to common stockholders		1,481,729	2,646,690	4,079,366	4,268,078
Basic and fully diluted loss per share		0.13	0.24	0.36	0.40
Basic weighted average number of shares		11,424,485	10,994,879	11,363,237	10,808,660

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

DelMar Pharmaceuticals, Inc.

Consolidated Condensed Interim Statement of Cash Flows

(Unaudited)

(expressed in US dollars unless otherwise noted)

	Six months ended December 31,	
	2016	2015
Note	\$	\$
Cash flows from operating activities		
Loss for the period	(3,612,312)	(4,268,078)
Items not affecting cash		
Amortization of intangible assets	7,716	2,572
Change in fair value of stock option and derivative liabilities	5,6 (135,980)	1,219,634
Change in fair value of derivative liability due change in warrant terms	5 -	263,965
Shares issued for services	6 564,000	80,400
Warrants issued for services	6 50,244	181,571
Stock option (income) expense	6 (43,384)	114,868
Changes in non-cash working capital		
Taxes and other receivables	399	9,482
Prepaid expenses	13,341	77,536
Accounts payable and accrued liabilities	(68,369)	(283,164)
Related party payables	4 161,937	(34,086)
	(3,062,408)	(2,635,300)
Cash flows from investing activities		
Website development costs	-	(16,762)
		(16,762)
Cash flows from financing activities		
Net proceeds from the issuance of shares and warrants	-	2,453,633
Proceeds from the exercise of warrants	6 326,699	405,183
Series A preferred stock dividend	6 (4,178)	(4,178)
	322,521	2,854,638
(Decrease) increase in cash and cash equivalents	(2,739,887)	202,576

Cash and cash equivalents - beginning of period	6,157,264	1,754,433
Cash and cash equivalents - end of period	3,417,377	1,957,009

Supplementary information (note 8)

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

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

1 Going concern, nature of operations, and corporate history

Going concern

These consolidated condensed interim 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.

For the six months ended December 31, 2016, the Company reported a loss of \$3,612,312, negative cash flow from operations of \$3,062,408 and had an accumulated deficit of \$36,321,403 at December 31, 2016. As at December 31, 2016, the Company has cash and cash equivalents on hand of \$3,417,377 and a working capital balance of \$2,845,141. The Company is in the development stage and has not generated any revenues to date. The Company does not have the prospect of achieving revenues until such time that its product candidate is commercialized or partnered which may not ever occur. In the near future, the Company will require additional funding to maintain its research and development projects and for general operations. These circumstances indicate the existence of a material uncertainty that may cast substantial doubt as to the ability of the Company to meet its obligations as they come due.

Consequently, management is pursuing various financing alternatives to fund the Company's operations so it can continue as a going concern. 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 do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Nature of operations

DelMar Pharmaceuticals, Inc. (the “Company”) is a clinical stage drug development company with a focus on the treatment of cancer. We are conducting clinical trials in the United States with our product candidate, VAL-083, as a potential new treatment for glioblastoma multiforme, the most common and aggressive form of brain cancer. We have also acquired certain exclusive commercial rights to VAL-083 in China where it is approved as a chemotherapy for the treatment of chronic myelogenous leukemia and lung cancer. In order to accelerate our development timelines and reduce risk, we leverage existing clinical and commercial data from a wide range of sources. We plan to seek marketing partnerships in China in order to potentially generate future royalty revenue.

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.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

Corporate history

The Company is a Nevada corporation formed on June 24, 2009 under the name Berry Only Inc. On January 25, 2013, the Company entered into and closed an exchange agreement (the “Exchange Agreement”), with Del Mar Pharmaceuticals (BC) Ltd. (“DelMar (BC)”), 0959454 B.C. Ltd. (“Callco”), and 0959456 B.C. Ltd. (“Exchangeco”) and the security holders of DelMar (BC). Upon completion of the Exchange Agreement, DelMar (BC) became a wholly-owned subsidiary of the Company (the “Reverse Acquisition”).

DelMar Pharmaceuticals, Inc. is the parent company of DelMar (BC), a British Columbia, Canada corporation incorporated on April 6, 2010, which is a clinical stage company with a focus on the development of drugs for the treatment of cancer. The Company is also the parent company to Callco and Exchangeco which are British Columbia, Canada corporations. Callco and Exchangeco were formed to facilitate the Reverse Acquisition.

References to the Company refer to the Company and its wholly-owned subsidiaries, DelMar (BC), Callco and Exchangeco.

2 Significant accounting policies

Reverse stock split

On May 16, 2016, the Company filed a Certificate of Change with the Secretary of State of Nevada that effected a 1-for-4 reverse stock split of its common stock. The reverse split became effective on May 20, 2016. All warrants, stock options, conversion ratios, and per share information in these consolidated condensed financial statements give retroactive effect to this 1-for-4 reverse stock split. The Company's authorized and issued preferred stock was not affected by the split. However, the conversion price for the conversion of the Company's Series B preferred stock into common stock was adjusted as a result of the reverse stock split.

Basis of presentation

The consolidated condensed interim financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") and are presented in United States dollars. The functional currency of the Company and each of its subsidiaries is the United States dollar.

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.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

Unaudited interim financial data

The accompanying unaudited December 31, 2016 consolidated condensed interim balance sheet, the consolidated condensed interim statements of loss and comprehensive loss for the three and six months ended December 31, 2016 and 2015, and consolidated condensed cash flows for the six months ended December 31, 2016 and 2015, 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 U.S. GAAP for complete financial statements. These consolidated condensed interim financial statements should be read in conjunction with the audited financial statements of the Company as at June 30, 2016 included in our Form 10-K filed with the Securities and Exchange Commission on September 13, 2016. 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 December 31, 2016 and results of its operations for the three and six months ended December 31, 2016 and 2015, and its cash flows for the six months ended December 31, 2016 and 2015. The results for three and six months ended December 31, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2017 or for any other future annual or interim period.

Use of estimates

The preparation of consolidated condensed interim financial statements in conformity with U.S. GAAP 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 period ended June 30, 2016.

Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding. For the three and six month periods ended December 31, 2016 and 2015 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 December 31, 2016, potential common shares of 4,505,852 (2015 – 4,472,236) relating to warrants, 896,250 (2015 – 908,750) relating to stock options, and 2,224,668 (2015 – nil) relating to the Series B convertible preferred stock were excluded from the calculation of net loss per common share because their inclusion would be anti-dilutive.

Recent accounting pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies that are adopted by the Company as of the specified effective date.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

The amendments in this update change existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the potential impact of the adoption of this standard.

ASU 2016-02, Leases (Topic 842).

The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the consolidated balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the potential impact of the adoption of this standard.

ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.

The updated guidance enhances the reporting model for financial instruments, and requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, and the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is currently assessing this standard for its impact on future reporting periods.

Accounting Standards Update ("ASU") 2014-15 - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

The objective of the guidance is to require management to explicitly assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management will assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date of an entity's financial statements. The new standard defines substantial doubt and provides examples of indicators thereof. The definition of substantial doubt incorporates a likelihood threshold of "probable" similar to the current use of that term in U.S. GAAP for loss contingencies. The new standard will be effective for all entities in the first annual period ending after December 15, 2016 (December 31, 2016 for calendar year-end entities). The Company has adopted this standard as of its December 31, 2016 quarter end.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

3 Valent Technologies, LLC

On December 31, 2014, the Company entered into an exchange agreement (the “Valent Exchange Agreement”) with Valent Technologies, LLC (“Valent”), an entity owned by Dr. Dennis Brown, the Company’s Chief Scientific Officer and director, and DelMar (BC). Pursuant to the Valent Exchange Agreement, Valent exchanged its loan payable in the outstanding amount of \$278,530 (including aggregate accrued interest to December 31, 2014 of \$28,530), issued to Valent by DelMar (BC), for 278,530 shares of the Company’s Series A Preferred Stock. The Series A Preferred Stock has a stated value of \$1.00 per share (the “Series A Stated Value”) and is not convertible into common stock. The holder of the Series A Preferred Stock is entitled to dividends at the rate of 3% of the Series A Stated Value per year, payable quarterly in arrears.

For the three months ended December 31, 2016 and 2015 respectively, the Company recorded \$2,089 related to the dividend payable to Valent. For the six months ended December 31, 2016 and 2015 respectively, the Company recorded \$4,178 related to the dividend payable to Valent. The dividends have been recorded as a direct increase in accumulated deficit.

4 Related party transactions

Pursuant to consulting agreements with the Company’s officers the Company recognized a total of \$275,000 (2015 - \$120,000) for the three months ended December 31, 2016 and \$395,000 (2015 - \$240,000) in expenses for the six months ended December 31, 2016. Amounts owed to related parties are non-interest bearing and payable on demand.

The Company incurred \$37,000 (2015 – \$43,250) in directors' fees during the three months ended December 31, 2016 and \$82,000 (2015 – \$85,000) in directors' fees during the six months ended December 31, 2016.

As part of the Series B preferred stock dividend (note 6) the Company issued 1,511 (2015 – 0) shares of common stock to officers and directors of the Company and recognized \$4,819 (2015 - 0) as a direct increase to deficit for the three months ended December 31, 2016. For the six months ended December 31, 2016, the Company issued 3,022 (2015 – 0) shares of common stock and recognized \$13,960 (2015 – 0) as a direct increase to the deficit in relation to the Series B preferred stock dividend.

The Company recorded \$2,089 (2015 - \$2,089) in dividends related to the Series A preferred stock issued to Valent for the three months ended December 31, 2016 and \$4,178 (2015 - \$4,178) for the six months ended December 31, 2016 (note 3).

5Derivative liability

The Company has issued common 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.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

2013 Investor Warrants

During the quarter ended March 31, 2013 the Company issued an aggregate of 3,281,250 units at a purchase price of \$3.20 per unit, for aggregate gross proceeds of \$10,500,000 (the "Private Offering"). Each unit consisted of one share of common stock and one five-year warrant (the "2013 Investor Warrants") to purchase one share of common stock at an initial exercise price of \$3.20. The exercise price of the 2013 Investor Warrants is subject to adjustment in the event that the Company issues common stock at a price lower than the exercise price, subject to certain exceptions. The 2013 Investor Warrants are redeemable by the Company at a price of \$0.004 per 2013 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 \$6.40 per share with an average trading volume of 50,000 shares per day, and (ii) the underlying shares of common stock are registered for resale.

As a result of the financing completed by the Company during the six months ended December 31, 2015 the exercise price of the 2013 Investor Warrants was reduced from \$3.20 to \$3.144.

2013 Investor Warrant exercises

During the three months ended December 31, 2016, 22,188 (2015 – 0) of the 2013 Investor Warrants were exercised for 22,188 (2015 – 0) shares of common stock at an exercise price of \$3.144 per share. The Company received proceeds of \$69,759 (2015 – 0) from these exercises. The warrants that have been exercised were revalued at their respective exercise dates and then the reclassification to equity was recorded resulting in \$57,466 (2015 – 0) of the derivative liability being reclassified to equity.

During the six months ended December 31, 2016, 65,095 (2015 – 128,875) of the 2013 Investor Warrants were exercised for 65,095 (2015 – 128,875) shares of common stock at an exercise price of \$3.144 per share. The Company received proceeds of \$204,659 (2015 - \$405,183) from these exercises. The warrants that have been exercised were revalued at their respective exercise dates and then the reclassification to equity was recorded resulting in \$238,474 (2015 - \$247,440) of the derivative liability being reclassified to equity.

2013 Investor Warrant amendments

During the year ended June 30, 2016, the Company entered into amendments (the “2013 Investor Warrant Amendments”) with the holders of certain 2013 Investor Warrants. During the six months ended December 31, 2016 pursuant to the 2013 Investor Warrant Amendments, 15,944 (2015 – 0) of the 2013 Investor Warrants were amended to extend the expiration date to March 31, 2019 and remove the provision requiring an adjustment of the exercise price in the event the Company sells common stock at a purchase price lower than the current warrant exercise price. As a result of the 2013 Investor Warrant Amendments, the Company has reclassified \$53,006 (2015 – 0) from the derivative liability to equity. The 2013 Investor Warrants were revalued to their respective amendment dates and were then reclassified to equity.

During the three months ended December 31, 2016 and 2015 there were no amendments to the 2013 Investor Warrants.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

2013 Placement Agent Warrants

On December 30, 2015, the Company entered into amendments (the “2013 Placement Agent Warrant Amendments”) with the holders of the 2013 Placement Agent Warrants. Pursuant to the 2013 Placement Agent Warrant Amendments, 1,262,500 of the 2013 Placement Agent Warrants were amended to extend the expiration date to June 30, 2019 and remove the provision requiring an adjustment of the exercise price in the event the Company sells common stock at a purchase price lower than the current warrant exercise price. As a result of the 2013 Placement Agent Warrant Amendments, the Company has recognized a loss of \$242,400 and has reclassified \$2,277,550 from the derivative liability to equity. The 2013 Placement Agent Warrants were revalued to the date of the amendment and were then reclassified to equity.

2015 Agent Warrants

As part of the Company’s financing completed during the six months ended December 31, 2015, the Company issued 23,477 warrants to certain placement agents (“2015 Agent Warrants”) and recognized them as a derivative liability of \$29,594 at the time of issuance. The 2015 Agent Warrants are exercisable at a per share price equal to \$3.00 until July 15, 2020. During the six months ended December 31, 2016, 680 of the 2015 Agent Warrants were exercised for cash proceeds of \$2,040 and 1,000 of the 2015 Agent Warrants were exercised on a cashless basis for 594 shares of common stock. The total reclassification to equity subsequent to revaluation at the respective exercise dates was \$9,935.

The Company’s derivative liability is summarized as follows:

	Three months ended	
	December 31,	
	2016	2015
	\$	\$
Opening balance	590,345	2,954,986
Change in fair value of warrants	(361,668)	680,188
Change in fair value due to change in warrant terms	-	242,400
Reclassification to equity upon amendment of warrants	-	(2,277,550)
Reclassification to equity upon exercise of warrants	(57,466)	(247,440)
Closing balance	171,211	1,352,584

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

	Six months ended	
	December 31,	
	2016	2015
	\$	\$
Opening balance	693,700	2,364,381
Change in fair value of warrants	(221,074)	1,219,634
Change in fair value due to change in warrant terms	-	263,965
Reclassification to equity upon amendment of warrants	(53,006)	(2,277,550)
Issuance of 2015 Agent Warrants	-	29,594
Reclassification to equity upon exercise of warrants	(248,409)	(247,440)
Closing balance	171,211	1,352,584

6 Stockholders' equity

Preferred stock

Authorized

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

Issued and outstanding

Special voting shares – at December 31, 2016 – 1 (June 30, 2016 – 1)

Series A shares – at December 31, 2016 – 278,530 (June 30, 2016 – 278,530)

Series B shares – at December 31, 2016 – 889,863 (June 30, 2016 – 902,238)

Series B Preferred Shares

During the year ended June 30, 2016 the Company issued an aggregate of 902,238 shares of Series B Preferred Stock at a purchase price of at \$8.00 per share. Each share of Series B Preferred Stock is convertible into 2.5 shares of common stock equating to a conversion price of \$3.20 (the “Conversion Price”) and will automatically convert to common stock at the earlier of 24 hours following regulatory approval of VAL-083 with a minimum closing bid price of \$8.00 or five years from the final closing dates. The holders of the Series B Preferred Stocks are entitled to an annual cumulative, in arrears dividend at the rate of 9% payable quarterly. The 9% dividend shall accrue quarterly commencing on the date of issue and be payable quarterly on June 30, December 31, December 31, and March 31 of each year commencing on June 30, 2016. Dividends shall be payable solely by delivery of shares of common stock (the “PIK Shares”), in an amount for each holder equal to the aggregate dividend payable to such holder with respect to the shares of Series B Preferred Stock held by such holder divided by the Conversion Price. The Series B Preferred Shares do not contain any repricing features.

In addition, the Company and the holders entered into a royalty agreement, pursuant to which the Company will pay the holders of the Series B preferred shares, in aggregate, a low, single-digit royalty based on their pro rata ownership of the Series B preferred shares on products sold directly by the Company or sold pursuant to a licensing or partnering arrangement (the “Royalty Agreement”).

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

Upon conversion of a holder's shares to common stock, such holder shall no longer receive ongoing royalty payments under the Royalty Agreement but will be entitled to receive any residual royalty payments that have vested. Rights to the royalties shall vest during the first three years following the applicable closing date, in equal thirds to holders of the Series B Preferred Stock on each of the three vesting dates, upon which vesting dates such royalty amounts shall become "Vested Royalties".

Pursuant to the Series B stock dividend, during the three months ended December 31, 2016, the Company issued 50,096 (2015 – 0) shares of common stock and recognized \$159,756 (2015 – 0) as a direct increase in accumulated deficit and during the six months ended December 31, 2016, the Company issued 100,889 (2015 – 0) shares of common stock and recognized \$467,054 (2015 – 0) as a direct increase in accumulated deficit.

During the three and six months ended December 31, 2016, a total of 12,375 (2015 – 0) shares of Series B preferred stock were converted for an aggregate 30,938 (2015 – 0) shares of common stock.

Series A Preferred Shares

Effective December 31, 2014 pursuant to the Company's Valent Exchange Agreement (note 3), the Company filed the Series A Certificate of Designation with the Secretary of State of Nevada. Pursuant to the Series A Certificate of Designation, the Company designated 278,530 shares of preferred stock as Series A Preferred Stock. The shares of Series A Preferred Stock have a stated value of \$1.00 per share (the "Series A Stated Value") and are not convertible into common stock. The holder of the Series A Preferred Stock is be entitled dividends at the rate of 3% of the Series A Stated Value per year, payable quarterly in arrears. Upon any liquidation of the Company, the holder of the Series A Preferred Stock will be entitled to be paid, out of any assets of the Company available for distribution to stockholders,

the Series A Stated Value of the shares of Series A Preferred Stock held by such holder, plus any accrued but unpaid dividends thereon, prior to any payments being made with respect to the common stock.

Common stock

Authorized - 50,000,000 common shares, \$0.001 par value

Issued and outstanding - December 31, 2016 – 11,485,219 (June 30, 2016 – 11,187,023)

	Shares of common stock outstanding	Common stock \$	Additional paid-in capital \$	Warrants \$
Balance – June 30, 2016	11,187,023	11,187	28,833,105	1,658,382
Warrants exercised for cash	105,775	105	595,047	(25,202)
Cashless exercise of warrants	594	1	5,158	-
Shares issued for services	60,000	60	563,940	-
Warrants issued for services	-	-	-	50,244
Amendment of warrants	-	-	53,006	-
Amendment of stock options	-	-	260,969	-
Series B Preferred stock dividends	100,889	101	466,953	-
Conversion of Series B preferred stock	30,938	31	86,300	-
Stock option (income) expense	-	-	(43,384)	-
Balance – December 31, 2016	11,485,219	11,485	30,821,094	1,683,424

The issued and outstanding common shares at December 31, 2016 include 1,014,011 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.

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

(expressed in US dollars unless otherwise noted)

Six months ended December 31, 2015

During the six months December 31, 2015, pursuant to a public offering under a Registration Statement on Form S-1, the Company issued 1,069,417 shares of common stock at \$2.40 per share and 1,069,417 warrants (the “2015 Investor Warrants”) to purchase shares of common stock at \$0.004 per warrant for total gross proceeds of \$2,566,660. The 2015 Investor Warrants are exercisable at \$3.00 per share for a period of five years until they expire on July 31, 2020.

The Company engaged certain placement agents for the sale of a portion of the shares and 2015 Investor Warrants. Under the Company’s engagement agreements with these placement agents, the Company agreed to pay up to a 7% cash commission and issue warrants to purchase shares of common stock (the “2015 Agent Warrants”) up to the number of shares of our common stock equal to 5% of the aggregate number of shares sold in the offering by such placement agent. Pursuant to the placement agent agreements the Company paid a total cash commission of \$80,575 and issued 23,477 2015 Agent Warrants (note 5). The 2015 Agent Warrants are exercisable at a per share price equal to \$3.00 until July 15, 2020.

In addition to the cash commission of \$80,575 the Company also incurred additional cash issue and closing costs of \$582,511 resulting in net cash proceeds from the public offering of \$1,903,514. The 2015 Agent Warrants have been recognized as non-cash issue costs of \$29,594.

Stock Options

The following table sets forth the options outstanding:

	Number of stock options outstanding	Weighted average exercise price \$
Balance – June 30, 2016	856,250	3.77
Granted	40,000	4.10
Balance – December 31, 2016	896,250	3.78

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The following table summarizes stock options currently outstanding and exercisable at December 31, 2016:

Exercise price \$	Number Outstanding at December 31, 2016	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2016
1.49	25,000	5.14	25,000
2.00	131,250	5.14	131,250
2.96	45,000	8.09	45,000
3.20	30,000	8.25	30,000
3.32	30,000	9.08	9,167
3.60	25,000	9.21	6,551
3.76	45,000	9.00	15,000
4.00	12,500	2.75	12,500
4.10	40,000	9.86	1,889
4.20	412,500	6.62	412,500
4.48	30,000	9.02	9,833
4.76	25,000	9.33	5,556
6.16	15,000	6.25	15,000
9.20	30,000	6.42	30,000
	896,250		749,246

Included in the number of stock options outstanding are 25,000 stock options granted at an exercise price of CDN \$2.00. The exercise prices shown in the above table have been converted to \$1.49 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:

December 31,
2016

Dividend rate	0	%
Volatility	78.3% to 88.7%	
Risk-free rate	1.1% to 1.7	%
Term - years	1.0 to 3.0	

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The Company has recognized the following amounts as stock option expense (income) for the periods noted:

	Three months ended December 31,		Six months ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Research and development	(65,727)	9,775	(35,012)	16,230
General and administrative	(9,475)	65,187	(8,372)	98,638
	(75,202)	74,962	(43,384)	114,868

All of the reversal of stock option expense of \$43,384 for the six months ended December 31, 2016 and the stock option expense of \$114,868 for the six months ended December 31, 2015 has been recognized as additional paid in capital. The aggregate intrinsic value of stock options outstanding at December 31, 2016 was \$208,846 (2015 - \$530,269) and the aggregate intrinsic value of stock options exercisable at December 31, 2016 was also \$208,846 (2015 - \$515,424). As of December 31, 2016, there was \$148,834 in unrecognized compensation expense that will be recognized over the three years. No stock options granted under the Plan have been exercised to December 31, 2016. 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 June 30, 2016	141,016	3.17	1.73
Granted	40,000	4.10	2.32
Vested	(34,012)	4.00	2.19
Unvested at December 31, 2016	147,004	3.37	1.85

Stock option liability

Certain of the Company's stock options have been issued in CA\$. Of these, a portion were classified as a stock option liability which is revalued at each reporting date. During the six months ended December 31, 2016, the Company amended 43,750 of these stock options held by five optionees such that the exercise price of the options was adjusted to be denominated in US\$. No other terms of the stock options were amended. As a result of the amendment, the Company recognized \$85,094 in stock option liability expense and \$260,969 was reclassified to equity during the six months ended December 31, 2016.

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Warrants

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 December 31, 2016:

Description	Number
Balance – June 30, 2016	4,612,627
2013 Investor Warrants (i)	(65,095)
2015 Investor Warrants (ii)	(40,000)
2015 Agent Warrants (iii)	(1,680)
Balance - December 31, 2016	4,508,852

i) 2013 Investor Warrants were exercised for cash proceeds of \$204,659.

ii) 2015 Investor Warrants were exercised for cash proceeds of \$120,000.

iii) 680 of the 2015 Agent Warrants were exercised for cash proceeds of \$2,040 and 1,000 of the 2015 Agent Warrants were exercised on a cashless basis for 594 shares of common stock.

7 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.

DelMar Pharmaceuticals, Inc.

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December 31, 2016

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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.

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 these warrants on its balance sheet as a derivative liability which is fair valued at each reporting period subsequent to the initial issuance. The Company has used 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 (specifically probabilities) 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.

a) Fair value of derivative liability

The derivative is not traded in an active market and the fair value is determined using valuation techniques. The Company uses judgment to select a variety of methods to make assumptions that are based on specific management

plans and market conditions at the end of each reporting period. The Company uses a fair value estimate to determine the fair value of the derivative liability. The carrying value of the derivative liability would be higher or lower as management estimates around specific probabilities change. The estimates may be significantly different from those recorded in the consolidated financial statements because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. All changes in the fair value are recorded in the consolidated statement of operations and comprehensive loss each reporting period. This is considered to be a Level 3 financial instrument as volatility is considered to be a level 3 input.

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

Liability	December 31, 2016		
	Level 1	Level 2	Level 3
Derivative liability	-	-	\$171,211

Liability	June 30, 2016		
	Level 1	Level 2	Level 3
Derivative liability	-	-	\$693,700

DelMar Pharmaceuticals, Inc.

Notes to Consolidated Condensed Interim Financial Statements

(Unaudited)

December 31, 2016

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8 Supplementary statement of cash flows information

	Six Months Ended December 31,	
	2016	2015
	\$	\$
Reclassification of derivative liability to equity upon the exercise of warrants (note 5)	248,409	247,440
Reclassification of derivative liability to equity upon the amendment of warrants (note 5)	53,006	2,277,550
Reclassification of stock option liability to equity upon settlement (note 6)	260,969	-
Series B Preferred share common stock dividend (note 6)	467,054	-
Deferred costs recognized as equity issue costs	-	550,119

Subsequent events

Subsequent to December 31, 2016, 125,000 stock purchase warrants were exercised at \$1.54 (CDN \$2.00) for total proceeds of \$192,075. These stock purchase warrants were exercised by Valent (notes 3 and 4) which is controlled by a cofounder of the Company.

In addition, 2,500 Series B preferred stock were exchanged for 6,250 shares of common stock.

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

This Management's Discussion and Analysis ("MD&A") contains "forward-looking statements", within the meaning of the Private Securities Litigation Reform Act of 1995, 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" "project", or "intend", including their opposites or similar 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 report. 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 report 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 June 30, 2016 and in the Company's other filings with the Securities and Exchange Commission, available at www.sec.gov. Actual results may differ materially from any forward-looking statement.

Recent Highlights

We advanced our product development program in refractory Glioblastoma Multiforme ("GBM") toward a pivotal Phase III clinical trial:

We completed a Phase I/II clinical trial of VAL-083 in refractory GBM and reported data at the American Society of Clinical Oncology's annual meeting demonstrating that VAL-083 may offer improved survival for GBM patients in comparison to currently available salvage chemotherapy; and

We completed an 'End of Phase II' meeting with the United States Food and Drug Administration ("FDA") and plan to advance VAL-083 into a pivotal Phase III clinical trial for GBM patients whose tumors have progressed following treatment with bevacizumab; and

Based on feedback from the FDA and our clinical advisors, we have developed a proposed study design for our pivotal Phase III registration-directed trial.

We initiated a new Phase II clinical study of VAL-083 in patients with MGMT-unmethylated GBM at first recurrence/progression prior to bevacizumab (Avastin®) exposure in collaboration with the University of Texas MD Anderson Cancer Center (“MD Anderson”).

During the fiscal year ended June 30, 2016, we raised gross proceeds of approximately \$7.2 million in a private placement. During the six months ended December 31, 2016 we received \$326,699 in proceeds from the exercise of warrants. We estimate that this cash is sufficient to fund our planned operations to the end of calendar 2017.

On July 12, 2016, our common stock began trading on the Nasdaq Capital Markets under the symbol “DMPI”.

We established collaborations designed to accelerate and expand our product opportunities with VAL-083:

o We entered into a collaboration research agreement with Accurexa, Inc. to explore local delivery of VAL-083 as a potential combination therapy for the treatment of brain tumors.

We continued to obtain promising research results supporting the potential of VAL-083 in a range of treatment-resistant cancer indications:

We presented additional data demonstrating that VAL-083 exhibits a distinct mode of action from other ochemotherapies used in the treatment of GBM at the annual meetings of the European Association of Neuro-Oncology (“EANO”) and the Society for NeuroOncology (“SNO”); and

o We presented data supporting the effectiveness of VAL-083 against chemotherapy-resistant ovarian cancers at the 11th Biennial Ovarian Cancer Research Symposium; and

We presented new non-clinical data supporting the differentiation of VAL-083 in the treatment of lung cancer at the American Association for Cancer Research's ("AACR") annual meeting; and

We presented data indicating that VAL-083 offers potential therapeutic alternatives in difficult-to-treat pediatric brain tumors at the AACR – Advances in Pediatric Research: From Mechanisms and Models to Treatment and Survivorship Conference.

We continued to strengthen our intellectual property portfolio. DelMar now holds seven issued US patents and eight issued patents outside of the US. We have thirteen patent families in various stages of prosecution, and over 100 patent filings in total.

Overview

DelMar Pharmaceuticals, Inc. (the "Company") is a clinical stage drug development company with a focus on the treatment of cancer. We are conducting clinical trials in the United States of our first product candidate, VAL-083, as a potential new treatment for GBM, the most common and aggressive form of brain cancer. We have also acquired certain exclusive commercial rights to VAL-083 in China where it is approved as a chemotherapy for the treatment of chronic myelogenous leukemia ("CML") and lung cancer. In order to accelerate our development timelines and reduce risk, we leverage existing clinical and commercial data from a wide range of sources. We plan to pursue independent development and commercialization of VAL-083 refractory GBM and potentially other product candidates that we may acquire or discover through our research activities. We will also seek collaborative development and commercialization partnerships in order to accelerate and expand our own product development efforts and potentially generate future royalty revenue.

VAL-083

Our product candidate, VAL-083, represents a "first-in-class" small molecule chemotherapeutic which means that 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 was originally discovered in the 1960's and has been assessed in 42 Phase I and Phase II clinical trials sponsored by the National Cancer Institute ("NCI") in the United States as a treatment against various cancers including lung, brain, cervical, ovarian tumors and leukemia. Published preclinical 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 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 for the treatment of refractory GBM and other 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 fewer 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 seven-year period of market exclusivity in the United States to encourage the development of new treatments for orphan diseases.

In the spring of 2016, the FDA Office of Orphan Products Development (“OOPD”) granted orphan drug designations to VAL-083 for the treatment of ovarian cancer and medulloblastoma. We have previously been granted an orphan drug designation for VAL-083 in glioma in the USA and Europe.

We also plan to seek collaborative development and commercialization partnerships to accelerate and expand the development of VAL-083 in newly diagnosed GBM and other non-orphan cancer indications.

We research the mechanism of action of potential product candidates to determine the clinical indications best suited for therapy and seek to rapidly advance into human clinical trials and toward commercialization. The mechanism of action of VAL-083 is understood to be a bi-functional alkylating agent. Alkylating agents are a commonly used class of chemotherapy drugs. They exhibit anti-cancer effects by binding to DNA and interfering with normal processes within the cancer cell, which prevents the cell from making the proteins needed to grow and survive. After exposure to alkylating agents, the cancer cell becomes dysfunctional and dies. There are a number of alkylating agents on the market that are used by physicians to treat different types of cancer.

VAL-083 Mechanism of Action

Our data indicates that VAL-083 attacks cancer cells via a unique mechanism of action which is distinct from other chemotherapies used in the treatment of cancer. Based on published research and our own data, the cytotoxic functional groups and the mechanism of action of VAL-083 are understood to be functionally different from alkylating agents commonly used in the treatment of cancer. VAL-083 has previously demonstrated activity in cell-lines that are resistant to other types of chemotherapy. No evidence of cross-resistance has been reported in published clinical studies. Therefore, we believe that VAL-083 may be effective in treating tumors that have failed or become resistant to other chemotherapies.

Our research indicates that VAL-083 forms a cross-link at the N⁷ position of guanine on the DNA of cancer cells. Our data indicate that this cross-link forms rapidly and is not easily repaired by the cancer cell resulting in cell-cycle arrest and lethal double-strand DNA breaks. VAL-083 readily crosses the blood brain barrier where it maintains a long half-life in comparison to the plasma. Published preclinical and clinical research demonstrate that VAL-083 is selective for brain tumor tissue.

The unique cross-link formed by VAL-083 distinguishes it from chemotherapies currently used in the treatment of GBM, the most common and aggressive form of brain cancer. The impact of this cross-link is to allow the retention of activity against GBM cells exhibiting features that cause resistance to current therapy.

Our data also demonstrate that VAL-083's mechanism is distinct from platinum-based chemotherapy, the current standard of care for a range of solid tumors. VAL-083 also appears to retain its high level of anti-cancer activity in p53 mutated NSCLC cell lines compared to cisplatin or oxaliplatin.

The p53 gene plays a central role in the protection of the human body from cancer and is responsible for initiating the process of programmed cell death, or apoptosis, which directs a cell to commit suicide if it becomes damaged or cancerous. The p53 pathway is also integral to the activity of many chemotherapy drugs. p53 is frequently mutated in NSCLC and p53 mutations are highly correlated with resistance to chemotherapy and poor patient outcomes in NSCLC.

The main dose-limiting toxicity ("DLT") related to the administration of VAL-083 in previous NCI-sponsored clinical studies was myelosuppression. Myelosuppression is the decrease in cells responsible for providing immunity, carrying oxygen, and those responsible for normal blood clotting. Myelosuppression is a common side effect of chemotherapy. There is no evidence of lung, liver or kidney toxicity even with prolonged treatment by VAL-083. Commercial data from the Chinese market where the drug has been approved for more than 15 years supports the safety findings of the

NCI studies.

Modern medicine allows for better management of myelosuppressive side effects. We believe this offers the potential opportunity to improve upon the drug's already established efficacy profile by substantially increasing the dose of VAL-083 that can be safely administered to cancer patients.

Background on GBM

Worldwide, there are an estimated 240,000 new cases of brain and central nervous system ("CNS") tumors each year. Gliomas are a type of CNS tumor that arises from glial cells in the brain or spine. Glial cells are the cells surrounding nerves. Their primary function is to provide support and protection for neurons in the CNS.

GBM is the most common and the most lethal form of glioma. According to the World Health Organization, GBM occurs with an incidence of 3.17 per 100,000 person-years. Approximately 15,000 new cases of GBM are expected to be diagnosed in the United States during 2016.

GBM progresses quickly and patients' conditions deteriorate rapidly progressing to death in less than two years for most patients. Common symptoms include headaches, seizures, nausea, weakness, paralysis and personality or cognitive changes such as loss of speech or difficulty in thinking clearly. The majority of GBM patients do not survive for more than two years following diagnosis, and the median survival in newly diagnosed patients with best available treatments is less than 15 months.

Standard treatment following diagnosis includes surgical resection to remove as much of the tumor as possible (“debulking”) followed by radiotherapy with concomitant and adjuvant chemotherapy with Temodar® (temozolomide “TMZ”). Nearly all patients diagnosed with GBM will relapse following first-line treatment, with a 1-year survival rate of approximately 25% following failure of front-line therapy, with an average 5-year survival rate less than 3%.

Avastin® (bevacizumab, an anti-VEGF antibody) is approved as a single agent for patients with recurrent GBM following prior therapy as an alternative to corticosteroids to relieve disease symptoms in the US, Canada, Australia and Japan. Avastin® carries a “black-box warning” related to severe, sometimes fatal, side effects such as gastrointestinal perforations, wound healing complications and hemorrhage. There are no data demonstrating an improvement in disease-related symptoms or increased survival in refractory GBM with Avastin®.

TMZ and the nitrosoureas, including carmustine, lomustine, and nimustine, are alkylating agents that readily cross the blood-brain-barrier and are used in the treatment of CNS cancers, including GBM. Alkylating agents are among the oldest type of cancer chemotherapies in use today. Alkylating agents bind to DNA to cause damage to cancer cells. Their anti-tumor mechanism is via alkylation of DNA resulting in base-pair mismatch or strand-mediated crosslinks between base pairs. The DNA damage caused by alkylating agents mimics naturally occurring errors, resulting in apoptosis and tumor cell death.

The primary anti-cancer mechanism of TMZ and the nitrosoureas is to attack the tumor’s DNA via alkylation of the O⁶-position of the DNA base residue, guanine. TMZ treatment causes DNA damage mainly by methylation at the O⁶-position of guanine resulting in guanine-thymine base pair mismatches during replication. Nitrosoureas mediate their cytotoxic effect by methylation at the O⁶-position of guanine which produces a crosslink to cytosine residues resulting in double-strand DNA breaks during mitosis.

A majority of GBM patients’ tumors are resistant to TMZ or nitrosourea therapy due to high expression of a naturally occurring enzyme called O⁶-DNA methylguanine methyl-transferase (“MGMT”) enzyme which repairs O⁶-guanine lesions. MGMT repair in turn inhibits the activity of TMZ and nitrosoureas and allows a patients’ GBM tumor to continue to grow in spite of treatment.

Consistent with the importance of its repair activity, high expression of MGMT is strongly correlated with poor patient outcomes. Several clinical studies have established that MGMT is an important prognostic indicator of response to TMZ and patient survival.

We have demonstrated that VAL-083 forms inter-strand DNA crosslinks at the N⁷ position of guanine – a building block of DNA. VAL-083 is active independent of MGMT which is highly expressed in approximately 67% of GBM patients and correlated with resistance to temozolomide, the current front-line chemotherapy in the treatment of GBM. Of patients tested in the DelMar trial, 84% exhibited high MGMT expression.

Probability of GBM Patient Survival Correlated to Expression of MGMT Enzyme

(Unmethylated promoter = High MGMT Expression and Significantly Shorter Survival)

VAL-083 in GBM

Data from prior NCI sponsored clinical trials with VAL-083 demonstrates activity against GBM and other central nervous system tumors. VAL-083 is an alkylating agent which readily crosses the blood-brain-barrier. Its primary cytotoxic mechanism, epoxide derived DNA cross-links at the N⁷ position of guanine, is distinct from TMZ or the nitrosoureas.

Our research demonstrates that VAL-083's unique cytotoxic mechanism forms DNA cross-links at the N⁷ position of guanine and retains cytotoxic activity independent of MGMT expression in vitro. We have presented research at peer-reviewed scientific meetings demonstrating that VAL-083 is active in patient-derived tumor cell lines and cancer stem cells that are resistant to other chemotherapies. Of particular importance is resistance to Temodar® due to activity of the repair enzyme MGMT, which results in chemoresistance in many GBM patients. We have presented data demonstrating that VAL-083 is active independent of MGMT resistance in laboratory studies. VAL-083 has more potent activity against brain tumor cells in comparison to TMZ and overcome resistance associated with MGMT suggesting the potential to surpass the current standard-of-care in the treatment of GBM.

A Summary of Our Data Demonstrating that VAL-083's Anti-Tumor Mechanism is Distinct from, and can Overcome, MGMT-Related Chemoresistance in the Treatment of GBM

In addition, historical NCI clinical trial data and our own research support the activity of VAL-083 as a potentiator of radiotherapy. Radiotherapy in combination with temozolomide is the current standard of care in the treatment of glioblastoma. Our research demonstrates that temozolomide and radiotherapy are ineffective against GBM cells exhibiting a high expression of MGMT, whereas VAL-083 potentiates the tumor-killing effect of radiation in these cells. Furthermore, the combination of VAL-083 and radiation has been demonstrated to be active against GBM tumor stem cells in vitro. Tumor stem cells are often resistant to chemotherapy and form the basis for tumor recurrence and metastasis.

VAL-083's more potent activity against brain tumor cells in comparison to TMZ, the ability to overcome MGMT-mediated resistance and activity against GBM cancer stem cells suggests the potential of VAL-083 to surpass the current standard-of-care in the treatment of GBM. We believe these data support a potential paradigm shift in the treatment of GBM where VAL-083 would be the chemotherapy of choice in the treatment of the majority of GBM patients whose tumors are known to express MGMT and other factors correlated with resistance to temozolomide or whose tumors become resistant to temozolomide over time.

VAL-083's activity in GBM has been established in historical NCI-sponsored clinical studies as chemotherapy in the treatment of newly diagnosed and recurrent brain tumors and other cancers. In general, tumor regression in brain cancer was achieved following therapy in greater than 40% of patients treated and stabilization was achieved in an additional 20% to 30%. In published clinical studies VAL-083 has previously been shown to have a statistically significant impact on median survival in high grade glioma brain tumors when combined with radiation versus radiation alone with results similar or superior to other chemotherapies approved for use in GBM (p value = <0.05).

A Summary of Published Data adapted from Separate Sources Comparing the Efficacy of VAL-083 and Other Therapies in the Treatment of GBM

Chemotherapy VAL-083	Comparative Therapy Radiation (XRT)	Radiation + Chemotherapy	Median Survival Benefit vs. XRT alone
<i>(Eagan 1979)</i>	8.4 months	16.8 months	8.4 months
Temozolomide (Temodar®)	12.1 months	14.6 months	2.5 months
<i>(Stupp 2005)</i>			
Lomustine (CCNU) <i>(Walker 1976)</i>	11.8 months	13 months	1.2 months
Carmustine (BCNU) <i>(Reagan 1976)</i>	10 months	12.5 months	2.5 months
Semustine (ACNU) <i>(Walker 1976)</i>		8.8 months	Not reported
Bevacizumab (Avastin®) <i>(Genentech, Inc)</i>	n.a.	No survival benefit per Avastin® label	

Additional support for the differentiated profile of VAL-083 and TMZ comes from the results of studies with GBM cancer stem cells (“CSCs”). GBM CSCs display strong resistance to TMZ, even where MGMT expression is low. However, our data demonstrates that GBM CSCs are susceptible to VAL-083 independent of MGMT expression.

Based on historical data and our own research, we believe that VAL-083 has the potential to offer physicians and patients a new paradigm in the treatment of GBM that will address significant unmet medical needs. In addition, the profile of VAL-083 offers the potential of additive or synergistic benefit as a future combination therapy with existing chemotherapeutic agents or novel vaccines or immunotherapy approaches currently under investigation.

Phase I/II Results in Refractory GBM

We filed an investigational new drug (“IND”) application with the FDA and initiated human clinical trials with VAL-083 as a potential treatment for refractory GBM. Details of the study are available at <http://www.clinicaltrials.gov/ct2/show/NCT01478178?term=VAL-083&rank=1>)

The Phase I/II trial was an open-label, single arm dose-escalation study designed to evaluate the safety, tolerability, pharmacokinetics and anti-cancer activity of VAL-083 in patients with refractory GBM. To be eligible for our clinical trial, patients must have been previously treated for GBM with surgery and/or radiation, if appropriate, and must have failed both bevacizumab (Avastin®) and temozolomide (Temodar®), unless either or both are contra-indicated. Response to treatment with VAL-083 was measured prior to each treatment cycle.

The overall goal of our Phase I/II clinical trial was to determine a modernized dosing regimen for advancement into a registration directed clinical trial. The Phase I portion of the study involved dose escalation cohorts until a maximum tolerated dose (“MTD”) was established in the context of modern care. A further 14-patient Phase II expansion was then enrolled at the MTD to gather further safety data at our chosen therapeutic dose and to further explore the outcomes in this patient population.

Forty-eight (48) GBM patients were enrolled in our Phase I/II clinical trial at five centers: the Mayo Clinic in Rochester, Minnesota, the Brain Tumor Center at University of California, San Francisco, the Sarah Cannon Cancer Research Center in Nashville, Tennessee, Denver, Colorado, and the SCRI affiliate site at the Florida Cancer Specialist Research Institute in Sarasota, Florida.

We reported the results of our Phase I/II clinical trial at the 2016 ASCO annual meeting. In summary, these data are as follows:

Pharmacokinetics

Pharmacokinetic (“PK”) analyses showed dose-dependent linear systemic exposure with a short (1-2h) plasma terminal half-life; average C_{max} at 40 mg/m²/day was 781 ng/mL (5.3μM). The observed PK profile is comparable to published literature. Prior NCI-sponsored studies demonstrated that VAL-083 readily crosses the blood brain barrier and has a long (>20 hour) half-life in the central nervous system (“CNS”).

We believe that this PK profile is optimal for the treatment of brain tumors: A long CNS half-life is expected to maximize exposure of the drug in the brain increasing the likelihood of successful treatment outcomes, while a short plasma half-life is desirable to minimize systemic side effects.

Observed pharmacokinetics from VAL-083 Phase 1 clinical trial dose vs. AUC

Based on observed and previously published pharmacokinetics, DelMar believes that therapeutic doses equal to, or above, 20 mg/m² daily on days 1, 2 and 3 of a 21-day cycle should deliver sufficient levels of VAL-083 to brain tumors to achieve a therapeutic benefit.

Safety and Tolerability

In the Phase I dose escalation regimen, no serious adverse events (“SAE”) related to VAL-083 were encountered at doses up to 40 mg/m²/day.

Increasing frequency of, and higher grade, hematologic toxicities were observed at doses above 40 mg/m²/day. Consistent with the published literature, the observed dose limiting toxicity for VAL-083 is primarily thrombocytopenia (low platelets). Observed platelet nadir occurred at approximately day 18, and recovery was rapid and spontaneous following treatment.

Based on Phase I observations, fourteen additional patients were enrolled in a Phase II expansion cohort at 40mg/m², which was established at the MTD. Consistent with Phase I, the dose of VAL-083 of 40 mg/m² on days 1, 2 and 3 of a 21-day cycle was generally well tolerated in Phase II. At this dose, one subject previously treated with CCNU, a nitrosourea agent, reported severe (Grade 4) thrombocytopenia. As a result of this observation, the protocol inclusion criterion for platelet count was increased from 100,000/μL to 150,000/μL for patients receiving prior nitrosoureas within 12 weeks preceding enrollment. No other dose limiting toxicities were observed in Phase II.

VAL-083 Safety Observations From Phase I/II Clinical Trial

Hematologic parameter and CTCAE grade	dose				
	≤30 mg/m ²	40 mg/m ²	45 mg/m ²	50 mg/m ²	
	n = 20	17	4	7	
Anemia	≤G2	11 55%	2 12%	2 50%	6 86%
	G3	2 10%	- 0%	- 0%	- 0%
	G4	- 0%	- 0%	- 0%	- 0%
Leukopenia	≤G2	5 25%	2 12%	- 0%	5 71%
	G3	1 5%	- 0%	- 0%	3 43%
	G4	- 0%	- 0%	2 50%	- 0%
Neutropenia	≤G2	4 20%	- 0%	- 0%	- 0%
	G3	- 0%	- 0%	- 0%	3 43%
	G4	- 0%	- 0%	2 50%	1 14%
Thrombocytopenia	≤G2	9 45%	3 18%	- 0%	3 43%
	G3	- 0%	- 0%	1 25%	3 43%
	G4	- 0%	1 6%	2 50%	1 14%
DLT Observed	nil	1	2	2	

Based on these data, we believe that the 40mg dose is the optimal dose to advance into registration-directed Phase III clinical trials as it maximizes the amount of drug that can be delivered to the tumor while minimizing untoward toxicity.

Doses Achieved

We confirmed that we achieved doses of VAL-083 that are substantially higher than were utilized in the original published NCI-sponsored clinical trials. A summary in comparison to the NCI’s historical regimen is as follows:

Dosing Regimen & Study	Acute Regimen (single cycle)	Comparative Cumulative Dose (@ 35 days)	Dose Intensity (dose per week)
NCI GBM historical regimen	Single Dose 25 mg/m ² x5 days = 125 mg/m ²	125 mg/m ²	25mg/m ² /wk

(Eagan et al)

daily x 5 q 5wks

(cycle = 35 days)

DelMar VAL-083

optimized regimen

daily x 3 q 3wks

(cycle = 21 days)

40 mg/m² x3 days = 120 mg/m² 240 mg/m²

40mg/m²/wk

Daily x 5 q 5wks refers to a dosing regimen of once per day for five consecutive days every five weeks (35-day cycle); while daily x 3 q 3wks refers to a dosing regimen of once per day for three consecutive days every three weeks (21-day cycle).

Our optimized dosing regimen increases the amount of VAL-083 delivered to the CNS by 60% over historical regimens without increased toxicity. Thus, the DelMar regimen achieves both a higher maximum concentration and higher overall exposure, which we believe may increase the likelihood of successful treatment outcomes in glioblastoma and other brain tumors.

Tumor Response and Outcomes

GBM patients in our Phase I/II clinical trial were not re-resected prior to treatment with VAL-083 and therefore had a growing recurrent GBM tumor at the time of enrollment. Patients were monitored for tumor response by MRI.

Consistent with un-resected refractory GBM, median progression free survival (“PFS”) was short at 1.2 months (range: 0.2 – 20.1 months). Five GBM patients treated with VAL-083 were reported to have stable disease as their best response following treatment; the remainder reported progressive disease.

Disease progression is typical in a refractory GBM population with non-resected tumors. However, we believe that slowed progression may provide meaningful clinical benefit in this patient population through prolonged overall survival and improved quality of life.

Ad-hoc subgroup analysis of the Phase I dose-escalation data indicated a dose response trend. Increased survival was observed following initiation of treatment in a high dose (30 and 40mg/m²) sub-group vs. a low dose ($\leq 5\text{mg/m}^2$) sub-group.

Observed Survival Based on Sub-Group Analysis

According to published literature, GBM patients failing bevacizumab have a poor prognosis with expected survival under five months. To date, more than half of patients receiving an assumed therapeutic dose of VAL-083 ($\geq 20\text{mg/m}^2$) have survived more than six months following bevacizumab failure; more than 40% have survived for nine months or are currently alive, and more than 20% have survived for twelve months or are currently alive with median survival of 8.35 months following bevacizumab failure.

ASCO 2016: VAL-083 compared to published literature

Reference	Post Avastin Salvage Therapy	Median Survival from Bevacizumab Failure
Rahman (2014)	nitrosourea	4.3 months
Mikkelsen (2011)	TMZ + irinotecan	4.5 months
Lu (2011)	dasatinib	2.6 months
Reardon (2011)	etoposide	4.7 months
Reardon (2011)	TMZ	2.9 months
Iwamoto (2009)	various	5.1 months
DLM-10-001	VAL-083 (n=22)	8.35 months

While recognizing that our data are representative of a relatively small, non-controlled Phase I/II clinical trial, we believe these outcomes support the potential of VAL-083 to offer meaningful clinical benefit to GBM patients who have failed bevacizumab, compared to currently available therapy. We plan to further investigate these results in a randomized pivotal Phase III clinical trial.

MGMT & IDH1

High expression of DNA repair protein MGMT and wild-type form of the enzyme isocitrate dehydrogenase (“IDH1”) have been correlated with poor outcomes in GBM.

The methylation status of the MGMT promoter was characterized by PCR and/or ELISA for nineteen GBM patients enrolled in DelMar’s trial: IDH1 status was reported in eleven patients; both MGMT and IDH1 status were reported in four patients. Of patients tested, 84% exhibited high MGMT and 90% were wild-type IDH1. All patients whose samples were tested for both markers were MGMT unmethylated by PCR and wild-type IDH1, a genotype that is correlated with particularly poor prognosis.

MGMT and IDH-1 have been previously shown to be diagnostic markers that correlate with resistance to currently available chemotherapies (e.g. temozolomide or nitrosourea) in the treatment of GBM and poor patient outcomes. Measurement of these biomarkers has become routine in clinical practice. While the science behind their importance in the disease pathway and their ultimate predictive value are still being explored, we believe we will ultimately be able to use such biomarkers in a prognostic fashion to select the patients most likely to respond to treatment as we expand the clinical development of VAL-083.

Notably, we have previously demonstrated that VAL-083’s anti-tumor mechanism is active independent from the MGMT status in vitro. We can therefore utilize the measurement of MGMT to identify newly diagnosed GBM patients who are least likely to respond to temozolomide. We believe that employing this strategy will allow us to focus our development and commercialization efforts on GBM patients with the greatest unmet medical need.

Additional Planned Clinical Trials in GBM

Registration-directed Phase III Trial in Refractory GBM

In May 2016, we held an end of Phase II meeting with the FDA where design of a registration-directed clinical program for VAL-083 in refractory GBM was discussed. Based on input we received from the FDA, the agency confirmed that it would consider the totality of data available, including data obtained from DelMar’s other planned clinical trials in related GBM populations, when assessing the New Drug Application (“NDA”). The FDA also noted that DelMar can rely on prior NCI studies and historical literature to support non-clinical data required for an NDA filing and that DelMar will have the option to file under a 505(b)(2) strategy which allows a sponsor to rely on already

established safety and efficacy data in support of an NDA.

DelMar's advanced development program will feature a single, randomized, multi-center Phase III study measuring survival outcomes compared to a "physicians' choice" control, which, if successful, would serve as the basis for an NDA submission for VAL-083. The study will enroll approximately 180 patients with histologically confirmed recurrent GBM who have failed both standard chemo-radiation and bevacizumab and will be randomized in a 2:1 fashion to receive either VAL-083 or a commonly used salvage chemotherapy. The control arm will consist of a limited number of salvage chemotherapies currently utilized in the treatment of Avastin®-failed GBM. The proposed statistical design between the two arms of the study is 90% power, and is proposed to include an interim analysis at 50% events for futility with O'Brien-Fleming superiority boundary and non-binding, gamma (-5) futility boundary. The estimated length of the proposed study is less than two years from initiation.

Based on historical development of other products in GBM, we believe that the FDA may grant Breakthrough Therapy, Fast Track, Accelerated Approval and/or Priority Review status to VAL-083 for the treatment of refractory GBM. Breakthrough Therapy, Fast Track, Accelerated Approval and Priority Review are expedited drug development designations established by the FDA that are intended to make therapeutically important drugs available at an earlier time. Receiving such a designation would not only highlight the importance of VAL-083 to GBM patients but could also optimize its regulatory timeline and commercial availability.

Data from our planned registration-directed Phase III trial will form the basis of our application for FDA approval. Based on our current financial resources, initiation of the registration-directed trial will require additional funding to support the expanded clinical operations necessary to conduct and manage the study. Subject to guidance from the FDA, and availability of funding, we plan to initiate the registration-directed Phase III study as soon as practicable.

Phase II Study in Recurrent MGMT-unmethylated GBM in Collaboration with University of Texas MD Anderson Cancer Center

In January 2017, we announced we had initiated our proposed Phase II study with MD Anderson. (clinicaltrials.gov identifier NCT02717962). The intent of our collaboration with MD Anderson is to accelerate the clinical development of VAL-083 for the treatment of MGMT-unmethylated GBM. We plan to enroll 48 MGMT-unmethylated, recurrent, bevacizumab-naïve GBM patients in this trial. MGMT promoter methylation status will be used as a validated biomarker for enrollment and tumors must exhibit an un-methylated MGMT promoter for patients to be eligible for the trial and patients eligible for the study will have recurrent GBM characterized by a high expression of MGMT.

The primary endpoint of this trial will be overall survival in comparison to historical data.

Phase II Trial in Newly Diagnosed MGMT-unmethylated GBM

Based on our data supporting a unique cytotoxic mechanism for VAL-083, we believe that this agent may be a potentially superior alternative to currently approved chemotherapies used in the treatment of newly diagnosed GBM patients whose tumors express features, such as high expression of MGMT, which make them unlikely to respond to currently available chemotherapy such as temozolomide.

We plan to conduct a single arm open-label Phase II study in newly diagnosed GBM patients whose tumors exhibit high-expression of MGMT. In this study, VAL-083 will be combined with radiotherapy as a potential replacement for temozolomide in patients with high expression of MGMT. The main goal of the trial will be to confirm the safety of DelMar's optimized dosing regimen in combination with radiotherapy and to investigate outcomes of the combination therapy in GBM patients with high expression of MGMT. The trial will be conducted at Sun Yat Sen University in Guangzhou China in collaboration with our partner in China, Guangxi Wuzhou Pharmaceutical Group Co. Ltd. (Guangxi Wuzhou Pharma), who will provide funding for the trial. Sun Yat Sen University has completed scientific review and the study protocol has been approved by its independent ethics committee. We plan to initiate this clinical trial subject to receipt by DelMar and Sun Yat Sen University of a genetic testing permit required by law in China.

Accurexa Collaboration

The Company has entered into a collaboration agreement with Accurexa, Inc. ("Accurexa"). Accurexa is a biotechnology company focused on developing novel neurological therapies to be directly delivered to specific

regions of the brain. Under the terms of the agreement, the Company and Accurexa will undertake collaborative research activities for the purpose of evaluating formulations of VAL-083 and one or more of temozolomide and BCNU for local delivery. Under the terms of the agreement, DelMar will supply VAL-083 and Accurexa will conduct experiments related to the development and validation of a novel formulation for the combined local delivery of VAL-083 and temozolomide. DelMar has been granted an exclusive right to license or acquire any product candidates and related intellectual property that results from research conducted under the agreement for further development and commercialization on an exclusive worldwide basis, or other terms that may be agreed upon between DelMar and Accurexa. The initial financial commitment by DelMar is not significant.

Other Indications for VAL-083

Central Nervous System Metastases of Solid Tumors

In June 2013, we announced a plan to split our Phase I/II clinical trial protocol into two separate studies: one focusing solely on refractory GBM and the other focusing on secondary brain cancers caused by other tumors that have spread to the brain. The successful management of systemic tumors by modern targeted therapies has led to increased incidence of mortality due to CNS metastases of lung cancer and other solid tumors.

Based on historical clinical activity and our own research, we believe that VAL-083 may be suitable for the treatment of patients with CNS metastases who currently have limited treatment options. Subject to the availability of financial and operating resources, we plan to develop a separate protocol for the continued exploration of VAL-083 in patients with secondary brain cancer caused by a solid tumor spreading to the brain.

VAL-083 in Lung Cancer

The activity of VAL-083 against solid tumors, including lung cancer, has been established in both preclinical and human clinical trials conducted by the NCI. VAL-083 is approved for the treatment of lung cancer in China; however, sales of VAL-083 in China have been limited by a lack of modern data, poor distribution, and preference for targeted therapies such as tyrosine kinase inhibitors (“TKIs”) in the modern era. DelMar has developed new non-clinical data to support the utility of VAL-083 in the modern treatment of lung cancer.

Lung cancer is a leading cause of cancer-related mortality around the world and effective treatment for lung cancer remains a significant global unmet need despite advances in therapy. In general, prognosis for lung cancer patients remains poor, with a 5-year survival rate of less than 14% among males and less than 18% among females in most countries.

Incidence of lung cancer in the United States is approximately 59 per 100,000 with the majority (52:100,000) being NSCLC. World Health Organization projects that the incidence of lung cancer in China is expected to exceed one million (1,000,000) new cases per year by 2025. Globally, the market for lung cancer treatment may exceed \$24 billion by 2033 according to a report published by Evaluate Pharma.

Non-small cell lung cancer (“NSCLC”) is the most common type of lung cancer. There are three common forms of NSCLC: adenocarcinomas are often found in an outer area of the lung; squamous cell carcinomas are usually found in the center of the lung next to an air tube (bronchus); and large cell carcinomas, which can occur in any part of the lung and tend to grow and spread faster than adenocarcinoma. NSCLC accounts for 85% of all lung cancer cases in the United States and approximately 90% of lung cancer cases diagnosed in China.

The current standard of care for newly diagnosed NSCLC is platinum-based combination therapy or TKI therapy for patients whose cancer exhibits epidermal growth factor receptor (“EGFR”) mutations. Patients exhibiting EGFR mutations have shown an initial response rate to TKIs which exceeds the response rate for conventional chemotherapy. However, TKI resistance has emerged as an important unmet medical need. In 2015, two new immunotherapy drugs, nivolumab (Opdivo®) and pembrolizumab (Keytruda®) were approved by the FDA for the treatment of lung cancer and have shown benefit in a subset of patients with recurrent NSCLC whose tumors exhibit

immunogenic targets such as PD-L1.

We believe VAL-083's unique bi-functional alkylating mechanism of action could make it a valuable drug of choice in NSCLC patients who are or become resistant to TKI therapy. In addition, VAL-083 readily crosses the blood brain barrier suggesting that it may be possible for VAL-083 to treat patients whose lung cancer has spread to the brain.

We have announced results of preclinical studies designed to evaluate the activity of VAL-083 in models of drug-resistant NSCLC in comparison to cisplatin. In an established murine xenograft model of NSCLC, the activity of VAL-083 was compared to standard platinum-based therapy with cisplatin against human NSCLC cell lines A549 (TKI-sensitive) and H1975 (TKI-resistant). In the study, VAL-083 demonstrated superior efficacy and safety in the treatment of TKI-susceptible (A549) tumors and in TKI-resistant (H1975) tumors. Specifically,

Treatment of TKI-sensitive (A549) NSCLC with 3 mg/kg of VAL-083 resulted in tumor growth delay of 26 days compared to untreated controls. Cisplatin (5 mg/kg) resulted in tumor growth delay of just four days. In addition, mean tumor volume on day 68 was significantly reduced in animals treated with 3 mg/kg VAL-083 ($p=0.001$) compared to untreated controls, and

Treatment of TKI-resistant (H1975) NSCLC with 4 mg/kg of VAL-083 resulted in a statistically significant reduction in tumor volume ($p=0.01$) versus untreated control after 27 days. In the same model, treatment with 5 mg/kg of cisplatin failed to achieve statistically significant reduction in tumor volume ($p=0.23$) versus untreated control after 27 days. Longer-term safety assessments are ongoing in this model.

The combination of VAL-083 with either cisplatin or oxaliplatin demonstrated a superadditive (synergistic) effect against NSCLC cell lines, including those resistant to TKI therapy *in vitro*.

In April 2016, we presented new non-clinical data at the AACR annual meeting. We reported that VAL-083:

induced apoptosis independent of p53 status, and appeared to have a distinct mode of action from platinum-based chemotherapies widely used in the treatment of NSCLC and ovarian cancer;

demonstrated an ability to circumvent cisplatin-resistance in all ovarian cell lines tested;

was active against NSCLC tumors harboring T790M, p53 and/or KRAS mutations, known to confer resistance to currently available therapies; and

demonstrated super-additivity or synergy in combination with platinum-based chemotherapy.

These data demonstrate that VAL-083's mechanism is distinct from platinum-based chemotherapy, presented provide support for VAL-083 as a viable treatment option for NSCLC patients who fail to respond to standard-of-care platinum-based therapy or TKI therapy, and support potential therapeutic benefits of a VAL-083 along with platinum combination regimens in newly diagnosed patients. In November 2015 at the AACR-NCI-EORTC International Conference on Molecular Targets and Cancer Therapeutics we presented data on the benefit of VAL-083 in combination with platinum-based chemotherapy regimens in the treatment of NSCLC. The results of the study

We plan to work with leading oncologists to develop clinical trial designs which will demonstrate the clinical utility of VAL-083 in NSCLC patients who are resistant to current standards of care. We believe this strategy will result in sales growth for VAL-083 in China where we have acquired certain exclusive rights, and generate future revenue for the Company through sales and marketing partnerships as well as position VAL-083 for global development in lung cancer.

We plan to conduct initial NSCLC trials in collaboration with Guangxi Wuzhou Pharmaceutical Group Co. Ltd. (Guangxi Wuzhou Pharma). Under the terms of our collaboration agreement with Guangxi Wuzhou Pharma, we are responsible for establishing protocols for and conducting clinical trials and Guangxi Wuzhou Pharma is responsible for the costs associated with clinical trials conducted in China. Our goal is to initiate this clinical trial as soon as practicable with the aim of developing new data to support product growth in China and to establish clinical proof of concept to expand our drug development efforts with VAL-083.

Conducting this clinical trial in China under our collaboration agreement with Guangxi Wuzhou Pharma will allow us to enhance the potential value of VAL-083 without significantly increasing our own planned cash expenditures. We also believe that these new data will support the potential to establish global partnerships and collaborations with

larger pharmaceutical companies who have the resources and commercial infrastructure to effectively develop and commercialize VAL-083 as a treatment for NSCLC on a worldwide basis.

VAL-083 in Ovarian Cancers

The activity of VAL-083 against gynecologic cancers has been established in both preclinical and human clinical trials conducted by the NCI. We have been researching the potential of VAL-083 as a treatment for ovarian cancer in collaboration with researchers at MD Anderson Cancer Center. In October 2015 at the AACR's Advances in Ovarian Cancer Research: Exploiting Vulnerabilities Conference and in September 2016 at the 11th Biennial Ovarian Cancer Research Symposium we presented data on this collaboration. These data demonstrate the effectiveness of VAL-083 against cisplatin-resistant ovarian cancers. Our data also demonstrate potential synergy of VAL-083 in combination with PARP inhibitors against platinum-resistant ovarian cancer. In April 2016 the FDA granted orphan drug designation for the use of VAL-083 in the treatment of ovarian cancer.

We plan to work with our advisors to develop a strategy to advance VAL-083 into clinical trials for the treatment of ovarian cancer, either as a single-agent or in combination with other approved agents.

VAL-083 in Pediatric Brain Cancers

The activity of VAL-083 against childhood and adolescent brain tumors has been established in both preclinical and human clinical trials conducted by the NCI. In November 2015 at AACR's - Advances in Pediatric Research: From Mechanisms and Models to Treatment and Survivorship we presented data indicating that VAL-083 offers potential therapeutic alternatives for the treatment of pediatric brain tumors. In March, 2016 the FDA granted orphan drug designation for the use of VAL-083 in the treatment of medulloblastoma.

Additional Indications

In historical studies sponsored by the NCI in the United States, VAL-083 exhibited clinical activity against a range of tumor types including central nervous system tumors, solid tumors and hematologic malignancies. We have established new non-clinical data supporting the activity of VAL-083 in different types of cancer that are resistant to modern targeted therapies and we believe that the unique cytotoxic mechanism of VAL-083 may provide benefit to patients in a range of indications. We intend to continue to research these opportunities, and if appropriate, expand our clinical development efforts to include additional indications.

Corporate History

We are a Nevada corporation formed on September 24, 2009 under the name Berry Only, Inc. Prior to a reverse acquisition undertaken on January 25, 2013 Berry did not have any significant assets or operations. The Company is the parent company of Del Mar Pharmaceuticals (BC) Ltd. ("DelMar (BC)"), a British Columbia, Canada corporation incorporated on April 6, 2010, that is focused 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 ("Callco"), and 0959456 B.C. Ltd., a British Columbia corporation ("Exchangeco"). Callco and Exchangeco were formed to facilitate the reverse acquisition.

References to the Company, "we", "us", and "our" refer to the Company and its wholly-owned subsidiaries, DelMar (BC), Callco and Exchangeco.

Reverse Stock Split

On May 16, 2016, the Company filed a Certificate of Change with the Secretary of State of Nevada that effected a 1-for-4 reverse stock split of its common stock. The reverse split became effective on May 20, 2016. All warrants, stock options, conversion ratios, and per share information in this report and the consolidated condensed financial statements and management discussion and analysis give retroactive effect to this 1-for-4 reverse stock split. The Company's authorized and issued preferred stock was not affected by the split. However, the conversion price for the conversion of the Company's Series B preferred stock into common stock was adjusted as a result of the reverse stock split.

Outstanding Securities

As of February 9, 2017, the Company has 10,602,458 shares of common stock issued and outstanding, 1,014,011 shares of common stock issuable upon exchange of the Exchangeable Shares of Exchangeco (which entitle the holder 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 Exchangeable Shares are recognized on an as-exchanged for common stock basis for financial statement purposes), outstanding warrants to purchase 4,380,870 shares of common stock, 887,363 outstanding shares of Series B Preferred Stock that are convertible into 2,218,418 shares of common stock, and outstanding options to purchase 896,250 shares of common stock. All Exchangeable Shares, warrants, and options are convertible or exercisable into one share of common stock. Each Series B convertible preferred share is convertible into 2.5 shares of common stock.

Related Parties

The Company acquired its initial patents and technology rights from Valent Technologies, LLC, (“Valent”), an entity owned by Dr. Dennis Brown, the Company’s Chief Scientific Officer and Director. As a result Valent is a related party to the Company.

The following related party transactions and balances have been entered into by the Company:

Pursuant to consulting agreements with the Company’s officers the Company recognized a total of \$275,000 (2015 - \$120,000) for the three months ended December 31, 2016 and \$395,000 (2015 - \$240,000) in expenses for the six months ended December 31, 2016. Amounts owed to related parties are non-interest bearing and payable on demand.

The Company incurred \$37,000 (2015 – \$43,250) in directors’ fees during the three months ended December 31, 2016 and \$82,000 (2015 – \$85,000) in directors’ fees during the six months ended December 31, 2016.

As part of the Series B preferred stock dividend the Company issued 1,511 (2015 – 0) shares of common stock to officers and directors of the Company and recognized \$4,819 (2015 - 0) as a direct increase to deficit for the three months ended December 31, 2016. For the six months ended December 31, 2016, the Company issued 3,022 (2015 – 0) shares of common stock and recognized \$13,960 (2015 – 0) as a direct increase to the deficit in relation to the Series B preferred stock dividend.

The Company recorded \$2,089 (2015 - \$2,089) in dividends related to the Series A preferred stock issued to Valent for the three months ended December 31, 2016 and \$4,178 (2015 - \$4,178) for the six months ended December 31, 2016.

Subsequent to December 31, 2016, Valent Technologies, LLC, a private entity controlled by the Company’s cofounder, director, and Chief Scientific Officer exercised 125,000 stock purchase warrants for proceeds to the Company of \$192,075.

On February 9, 2017, the Company entered into an amendment to a consulting agreement with Dr. Dennis Brown, the Company’s chief scientific officer. Pursuant to the amendment, Dr. Brown will continue to serve as the Company’s

chief scientific officer until December 31, 2017, which period may be extended in accordance with the terms of the agreement. The Company will pay Dr. Brown an annual consulting fee of \$200,000 during 2017. The Company may also pay to Dr. Brown a bonus and incentive compensation as determined at the discretion of the board of directors.

On February 9, 2017, the Company entered into an employment agreement with Jeffrey Bacha, the Company's chief executive officer. Pursuant to the employment agreement, Mr. Bacha will continue to serve as the Company's chief executive officer for an indefinite period until termination of the employment agreement in accordance with its terms. The Company will pay Mr. Bacha an annual base salary of \$250,000 (which may be adjusted on an annual basis in the discretion of the board of directors) and Mr. Bacha will also be eligible to participate in any bonus plan and long term incentive plan established by the Company for senior executives. For the 2016/2017 fiscal year Mr. Bacha will be eligible for a target bonus of up to 30% of the base salary based on milestones to be set by the board of directors in consultation with Mr. Bacha, and long term incentive compensation valued using Black-Scholes at \$250,000. The employment agreement may be terminated by the Company with or without cause (as defined therein). In the event the Company terminates the employment agreement without cause, the Company will be required to pay Mr. Bacha, any accrued and unpaid base salary, plus an amount equal to 12 months of Mr. Bacha's base salary plus one additional month's base salary for each completed year of service, up to 18 months' base salary.

On February 9, 2017, the Company entered into an employment agreement with Scott Praill, the Company's chief financial officer. Pursuant to the employment agreement, Mr. Praill will continue to serve as the Company's chief financial officer for an indefinite period until termination of the employment agreement in accordance with its terms. The Company will pay Mr. Praill an annual base salary of \$200,000 (which may be adjusted on an annual basis in the discretion of the board of directors) and Mr. Praill will also be eligible to participate in any bonus plan and long term incentive plan established by the Company for senior executives. For the 2016/2017 fiscal year Mr. Praill will be eligible for a target bonus of up to 25% of the base salary based on milestones to be set by the board of directors in consultation with Mr. Praill, and long term incentive compensation valued using Black-Scholes at \$100,000. The employment agreement may be terminated by the Company with or without cause (as defined therein). In the event the Company terminates the employment agreement without cause, the Company will be required to pay Mr. Praill, any accrued and unpaid base salary, plus an amount equal to 12 months of Mr. Praill's base salary plus one additional month's base salary for each completed year of service, up to 18 months' base salary.

Derivative Liability

The Company has issued common 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.

2013 Investor Warrants

During the quarter ended March 31, 2013 the Company issued an aggregate of 3,281,250 units at a purchase price of \$3.20 per unit, for aggregate gross proceeds of \$10,500,000 (the “Private Offering”). Each unit consisted of one share of common stock and one five-year warrant (the “2013 Investor Warrants”) to purchase one share of common stock at an initial exercise price of \$3.20. The exercise price of the 2013 Investor Warrants is subject to adjustment in the event that the Company issues common stock at a price lower than the exercise price, subject to certain exceptions. The 2013 Investor Warrants are redeemable by the Company at a price of \$0.004 per 2013 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 \$6.40 per share with an average trading volume of 50,000 shares per day, and (ii) the underlying shares of common stock are registered for resale.

As a result of the financing completed by the Company during the six months ended December 31, 2015 the exercise price of the 2013 Investor Warrants was reduced from \$3.20 to \$3.144.

2013 Investor Warrant exercises

During the six months ended December 31, 2016, 65,095 of the 2013 Investor Warrants were exercised for cash at an exercise price of \$3.144 per share. The Company received proceeds of \$204,659 from these exercises. The warrants that have been exercised were revalued at their respective exercise dates and then the reclassification to equity was recorded resulting in \$238,474 of the derivative liability being reclassified to equity.

During the six months ended December 31, 2015, 128,875 of the 2013 Investor Warrants were exercised for 128,875 shares of common stock at an exercise price of \$3.144 per share. The Company received proceeds of \$405,183 from these exercises. The warrants that have been exercised were revalued at their exercise date and then the reclassification to equity was recorded resulting in \$247,440 of the derivative liability being reclassified to equity.

2013 Investor Warrant amendments

During the year ended June 30, 2016, the Company entered into amendments (the “2013 Investor Warrant Amendments”) with the holders of certain 2013 Investor Warrants. During the six months ended December 31, 2016 pursuant to the 2013 Investor Warrant Amendments, 15,944 (2015 – 0) of the 2013 Investor Warrants were amended to extend the expiration date to March 31, 2019 and remove the provision requiring an adjustment of the exercise price

in the event the Company sells common stock at a purchase price lower than the current warrant exercise price. As a result of the 2013 Investor Warrant Amendments, the Company has reclassified \$53,006 (2015 – 0) from the derivative liability to equity. The 2013 Investor Warrants were revalued to their respective amendment dates and were then reclassified to equity.

During the three months ended December 31, 2016 and 2015 there were no amendments to the 2013 Investor Warrants.

2013 Placement Agent Warrants

On December 30, 2015, the Company entered into amendments (the “2013 Placement Agent Warrant Amendments”) with the holders of the 2013 Placement Agent Warrants. Pursuant to the 2013 Placement Agent Warrant Amendments, 1,262,500 of the 2013 Placement Agent Warrants were amended to extend the expiration date to June 30, 2019 and remove the provision requiring an adjustment of the exercise price in the event the Company sells common stock at a purchase price lower than the current warrant exercise price. As a result of the 2013 Placement Agent Warrant Amendments, the Company has recognized a loss of \$242,400 and has reclassified \$2,277,550 from the derivative liability to equity. The 2013 Placement Agent Warrants were revalued to the date of the amendment and were then reclassified to equity.

2015 Agent Warrants

As part of the Company’s financing completed during the six months ended December 31, 2015 (note 6), the Company issued 23,477 warrants to certain placement agents (“2015 Agent Warrants”) and recognized them as a derivative liability of \$29,594 at the time of issuance. The 2015 Agent Warrants are exercisable at a per share price equal to \$3.00 until July 15, 2020. During the six months ended December 31, 2016, 680 of the 2015 Agent Warrants were exercised for cash proceeds of \$2,040 and 1,000 of the 2015 Agent Warrants were exercised on a cashless basis for 594 shares of common stock. The total reclassification to equity subsequent to revaluation at the respective exercise dates was \$9,935.

The Company's derivative liability is summarized as follows:

	Three months ended	
	December 31,	December 31,
	2016	2015
	\$	\$
Opening balance	590,345	2,954,986
Change in fair value of warrants	(361,668)	680,188
Change in fair value due to change in warrant terms	-	242,400
Reclassification to equity upon amendment of warrants	-	(2,277,550)
Reclassification to equity upon exercise of warrants	(57,466)	(247,440)
Closing balance	171,211	1,352,584
	Six months ended	
	December 31,	December 31,
	2016	2015
	\$	\$
Opening balance	693,700	2,364,381
Issuance of 2015 Agent Warrants	-	29,594
Change in fair value of warrants	(221,074)	1,219,634
Change in fair value due to change in warrant terms	-	263,965
Reclassification to equity upon amendment of warrants	(53,006)	(2,277,550)
Reclassification to equity upon exercise of warrants	(248,409)	(247,440)
Closing balance	171,211	1,352,584

Selected Quarterly Information

The financial information reported herein has been prepared in accordance with accounting principles generally accepted in the United States. The Company's functional currency at December 31, 2016 is the US\$. The following tables represent selected financial information for the Company for the periods presented.

Selected Balance Sheet Data

	December 31, 2016	June 30, 2016
	\$	\$
Cash and cash equivalents	3,417,377	6,157,264
Working capital	2,845,141	5,692,336
Total assets	3,594,456	6,355,799
Derivative liability	171,211	693,700
Total stockholders' equity	2,702,231	4,858,778

*Selected Statement of operations data***For the three months ended:**

	December 31, 2016 \$	December 31, 2015 \$
Research and development	1,120,910	789,187
General and administrative	571,286	890,672
Change in fair value of stock option and derivative liabilities	(361,668)	680,188
Change in fair value of derivative liability due to change in warrant terms	-	242,400
Foreign exchange (gain) loss	(8,495)	44,253
Interest income	(60)	(10)
Net and comprehensive loss for the period	1,321,973	966,831
Series B preferred stock dividend	159,756	-
Net and comprehensive loss available to common stockholders	1,481,729	966,831
Basic weighted average number of shares outstanding	11,424,845	10,994,879
Basic loss per share	0.13	0.24

For the six months ended:

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	December 31, 2016 \$	December 31, 2015 \$
Research and development	1,853,639	1,393,032
General and administrative	1,887,925	1,364,697
Change in fair value of stock option and derivative liabilities	(135,980)	1,219,634
Change in fair value of derivative liability due to change in warrant terms	-	263,965
Foreign exchange loss	6,829	26,780
Interest income	(101)	(30)
Net and comprehensive loss for the period	3,612,312	1,510,349
Series B Preferred stock dividend	467,054	-
Net and comprehensive loss available to common stockholders	4,079,366	1,510,349
Basic weighted average number of shares outstanding	11,363,237	10,808,660
Basic loss per share	0.36	0.40

Expenses net of share-based payments

The following table discloses research and development, and general and administrative expenses net of share-based payment expenses.

Results of operations**For the three months ended:**

	December 31, 2016	December 31, 2015
	\$	\$
Research and development	1,120,910	789,187
Share-based expenses included in research and development	65,727	(42,186)
Research and development net of non-cash	1,186,637	747,001
General and administrative	571,286	890,672
Share-based expenses included in general and administrative	9,475	(288,093)
General and administrative net of non-cash	580,761	602,579

For the six months ended:

	December 31, 2016	December 31, 2015
	\$	\$
Research and development	1,853,639	1,393,032
Share-based expenses included in research and development	9,890	(48,641)
Research and development net of non-cash	1,863,529	1,344,391
General and administrative	1,887,925	1,364,697
Share-based expenses included in general and administrative	(580,750)	(328,198)
General and administrative net of non-cash	1,307,175	1,036,499

Comparison of the three months ended December 31, 2016 and December 31, 2015

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	Three Months Ended		Change	Change %
	December 31, 2016	December 31, 2015		
	\$	\$	\$	
Research and development	1,120,910	789,187	331,723	42
General and administrative	571,286	890,672	(319,386)	(36)
Change in fair value of stock option and derivative liabilities	(361,668)	680,188	(1,041,856)	(1,532)
Change in fair value of derivative liability due to change in warrant terms	-	242,400	(242,400)	(100)
Foreign exchange (gain) loss	(8,495)	44,253	(52,748)	(1,191)
Interest income	(60)	(10)	(50)	5
Net loss	1,321,973	2,646,690	(1,324,717)	

Research and Development

Research and development expenses increased to \$1,120,910 for the three months ended December 31, 2016 from \$789,187 for the three months ended December 31, 2015. The increase was largely attributable to an increase in intellectual property-related activities, clinical manufacturing and other activities conducted in preparation for our planned pivotal Phase III clinical trial in refractory GBM, our two Phase II clinical trials in MGMT-unmethylated GBM, preclinical research, travel, and personnel, partially offset by a reduction in non-cash expenses during the three months ended December 31, 2016 compared to the three months ended December 31, 2015. Excluding the impact of non-cash expense, research and development expenses increased to \$1,186,637 during the three months ended December 31, 2016 from \$747,001 for the three months ended December 31, 2015. For the three months ended December 31, 2016 non-cash expense related to a reversal of stock option expense while for the three months ended December 31, 2015, non-cash expense related to warrants issued for services and stock option expense. During the three months ended December 31, 2016, there was a reversal of stock option expense of \$65,727 due to reduction in the Company's share price during the three months ended December 31, 2016.

Intellectual property costs increased in the three months ended December 31, 2016 compared to the three months ended December 31, 2015 as the Company continued to expand and advance its patent portfolio. New patents filed in previous periods require on-going costs to advance those filings in the United States and in foreign jurisdictions. Patent costs can vary considerably depending on the filing of new patents, conversion of the provisional applications to PCT applications, foreign office actions, and actual filing costs. Preclinical research increased primarily due to an increase in the ongoing mechanism of action research that the Company has undertaken in the current period. The increase in clinical costs was primarily due to protocol development for the pending Phase III study. Travel costs were higher in the current quarter as the Company attended certain conferences in Europe for the first time. Personnel costs increased in the three months ended December 31, 2016 compared to the three months ended December 31, 2015 due to an increase in compensation for research and management staff.

General and Administrative

General and administrative expenses were \$571,286 for the three months ended December 31, 2016 compared to \$890,672 for the three months ended December 31, 2015. The decrease was primarily due to a decrease in professional fees, travel, and non-cash expenses partially offset by higher personnel costs. In relation to general and administrative expenses during the three months ended December 31, 2016, the Company recognized a reversal of stock option expense of \$9,475 while during the three months ended December 31, 2015 the Company incurred non-cash expenses relating to warrants and shares issued for services and stock option expense of \$288,093.

Excluding the impact of non-cash expenses, general and administrative expenses decreased in the three months ended December 31, 2016 to \$580,761 from \$602,579 for the three months ended December 31, 2015. Professional fees

decreased during the three months ended December 31, 2016 compared to the three months ended December 31, 2015 due to prior period costs relating to legal fees and investor relations that were not incurred in the current quarter. Travel costs decreased during the three months ended December 31, 2016 compared to the three months ended December 31, 2015 due to attending fewer conferences in the current period compared to the prior period. Personnel costs increased in the three months ended December 31, 2016 compared to the three months ended December 31, 2015 due to an increase in compensation for management staff.

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 statement of loss and comprehensive loss. The balances recognized during the three months ended December 31, 2016 and 2015 were primarily due to changes in the Company's common stock price between the date the warrants were last valued on September 30, 2016 and 2015 respectively which are the previous valuation dates used for the three month periods ended December 31.

The Company recognized a gain of \$361,668 from the change in fair value of the derivative liability for the three months ended December 31, 2016.

For the three months ended December 31, 2015 the Company recognized a loss of \$680,188 due to the change in fair value of the derivative liability. In addition, the Company recognized a loss due to change in warrant terms of \$242,400 which resulted from the change in fair value of the 2013 Placement Agent Warrants when these warrants were amended during the quarter ended December 31, 2015.

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, the Company expects that its reported net income or loss will continue to fluctuate significantly.

Foreign Exchange Gain

The Company's functional currency at December 31, 2016 is the US\$ but the Company incurs a portion of its expenses in CA\$. The foreign exchange gains and losses are reported in other loss (income) in the consolidated condensed interim statement of loss and comprehensive loss.

The Company recognized a foreign exchange gain of \$8,495 for the quarter ended December 31, 2016 compared to a loss of \$44,253 for the quarter ended December 31, 2015. The change was due to changes in the exchange rate between the CA\$ and the US\$ and to varying levels of CA\$ cash and accounts payable.

Preferred Stock Dividends

For each of the three months ended December 31, 2016 and 2015 the Company recorded \$2,089 related to the dividend payable to Valent on the Series A preferred stock. The dividend has been recorded as a direct increase in accumulated deficit for both periods.

The Company issued 50,096 shares of common stock on December 31, 2016 as a dividend on the Series B preferred stock and recognized \$159,756 as a direct increase in accumulated deficit.

Comparison of the six months ended December 31, 2016 and December 31, 2015

Six Months Ended		Change	Change %
December 31, 2016	December 31, 2015		
		Change	
		\$	

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	\$	\$		
Research and development	1,853,639	1,393,032	460,607	33
General and administrative	1,887,925	1,364,697	523,228	38
Change in fair value of stock option and derivative liabilities	(135,980)	1,219,634	(1,355,614)	(1,111)
Change in fair value of derivative liability due to change in warrant terms	-	263,965	(263,965)	(100)
Foreign exchange loss	6,829	26,780	(19,951)	(74)
Interest income	(101)	(30)	(71)	2,367
Net loss	3,612,312	4,268,078	(655,766)	

Research and Development

Research and development expenses increased to \$1,853,639 for the six months ended December 31, 2016 from \$1,393,032 for the six months ended December 31, 2015. The increase was largely attributable to an increase in intellectual property-related activities, clinical manufacturing and other activities conducted in preparation for our planned pivotal Phase III clinical trial in refractory GBM, our two Phase II clinical trials in MGMT-unmethylated GBM, preclinical, and personnel, partially offset by a reduction in non-cash expenses during the six months ended December 31, 2016 compared to the six months ended December 31, 2015. Excluding the impact of non-cash expense, research and development expenses increased to \$1,863,529 during the current period from \$1,344,391 for the prior period. For the six months ended December 31, 2016 non-cash expense related to warrants issued for services and a reversal of stock option expense while for the six months ended December 31, 2015, non-cash expense related to warrants issued for services and stock option expense. Stock option expense has decreased in the current period compared to the prior period due to a decrease in the Company's stock price.

Intellectual property costs increased in the six months ended December 31, 2016 compared to the six months ended December 31, 2015 as the Company continued to expand and advance its patent portfolio. New patents filed in previous periods require on-going costs to advance those filings in the United States and in foreign jurisdictions. Patent costs can vary considerably depending on the filing of new patents, conversion of the provisional applications to PCT applications, foreign office actions, and actual filing costs. Preclinical research increased primarily due to an increase in the ongoing mechanism of action research that the Company has undertaken in the current period. The increase in clinical costs was primarily due to protocol development for the pending Phase III study. Personnel costs increased in the six months ended December 31, 2016 compared to the six months ended December 31, 2015 due to an increase in compensation for research and management staff.

General and Administrative

General and administrative expenses were \$1,887,925 for the six months ended December 31, 2016 compared to \$1,364,697 for the six months ended December 31, 2015. The increase was primarily due to an increase in professional fees, facilities costs, personnel costs, and non-cash expenses partially offset by a decrease in travel. In relation to general and administrative expenses during the six months ended December 31, 2016, the Company incurred non-cash expenses of \$580,750 related to shares and warrants issued for services and a reversal of stock option expense while during the six months ended December 31, 2015 the Company incurred non-cash expenses of \$328,198 relating to shares and warrants issued for services and stock option expense. Although the Company's share price decreased during the six months ended December 31, 2016, the timing of the issuance of shares and warrants for services resulting in a net increase in non-cash expense even though the Company recognized a reversal of stock option expense.

Excluding the impact of non-cash expenses, general and administrative expenses increased in the six months ended December 31, 2016 to \$1,307,175 from \$1,036,499 for the six months ended December 31, 2015. Professional fees increased during the six months ended December 31, 2016 compared to the six months ended December 31, 2015 due to costs related to preparing for the Company's uplisting of its common stock on the Nasdaq Stock Market as well as fees associated with one-time listing activities and filing three registration statements that were all declared effective in September 2016. Facilities costs have increased in part due to the initial fees to list our common stock on the Nasdaq Stock Market. Additional increases in facilities costs relate to expenses to maintain our digital communications channels for a full six months in 2016 compared to a shorter period in 2015. Personnel costs have increased in the six months ended December 31, 2016 compared to the six months ended December 31, 2015 due to an increase in compensation for management staff. Travel decreased in the current period compared to the prior period as in the prior period the Company completed a financing which resulted in significant travel both during the financing as well as during the post-financing period.

Change in fair value of stock option and derivative liabilities

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 statement of loss and comprehensive loss. The balances recognized during the six months ended December 31, 2016 and 2015 were primarily due to changes in the Company's common stock price between the date the warrants were last valued on June 30, 2016 and 2015 respectively which are the previous valuation dates used for the periods ended December 31.

The Company recognized a gain of \$135,980 from the change in fair value of the stock option and derivative liabilities for the six months ended December 31, 2016.

Certain of the Company's stock options have been issued in CA\$. Of these, a portion have been classified as a stock option liability which is revalued at each reporting date. During the six months ended December 31, 2016, the Company recognized a revaluation loss \$85,094 relating to the revaluation of these stock options. During the six months ended December 31 2016, the Company amended 43,750 of these stock options held by five optionees such that the exercise price of the options was adjusted to be denominated in US\$. No other terms of the stock options were amended. As a result of the amendment, \$260,969 was reclassified to equity during the six months ended December 31, 2016.

For the six months ended December 31, 2015 the Company recognized a loss of \$1,219,634 due to the change in fair value of the derivative liability. In addition, the Company recognized a loss due to change in warrant terms of \$263,965 which resulted from the change in fair value of the 2013 Investor Warrants and the 2013 Placement Agent Warrants when their respective exercise prices decreased as a result of the Company issuing common stock below \$3.20 per share due to the financing the Company completed during the period ended December 31, 2015. Also impacting the loss due change in warrant terms was the amendment of the 2013 Placement Agent Warrants.

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, the Company expects that its reported net income or loss will continue to fluctuate significantly.

Foreign Exchange Gain

The Company's functional currency at December 31, 2016 is the US\$ but the Company incurs a portion of its expenses in CA\$. The foreign exchange gains and losses are reported in other loss (income) in the consolidated condensed interim statement of loss and comprehensive loss.

The Company recognized a foreign exchange loss of \$6,829 for the six months ended December 31, 2016 compared to a loss of \$26,780 for the six months ended December 31, 2015. The change was due to changes in the exchange rate between the CA\$ and the US\$ and to varying levels of CA\$ cash and accounts payable.

Preferred Share Dividends

For each of the six months ended December 31, 2016 and 2015 the Company recorded \$4,178 related to the dividend payable to Valent on the Series A preferred stock. The dividend has been recorded as a direct increase in accumulated deficit for both periods.

The Company issued 100,889 shares of common stock during the six months ended December 31, 2016 as a dividend on the Series B Preferred stock and recognized \$467,054 as a direct increase in accumulated deficit.

Liquidity and Capital Resources

Six months ended December 31, 2016 compared to the six months ended December 31, 2015

	December 31, 2016	December 31, 2015	Change	Change
	\$	\$	\$	%
Cash flows from operating activities	(3,062,408)	(2,635,300)	(427,108)	16
Cash flows from investing activities	-	(16,762)	(16,762)	(100)
Cash flows from financing activities	322,521	2,854,638	(2,532,117)	(89)

Operating Activities

Net cash used in operating activities increased to \$3,062,408 for the six months ended December 31, 2016 from \$2,635,300 for the six months ended December 31, 2015. During the six months ended December 31, 2016 and 2015 the Company reported net losses of \$3,612,312 and \$4,268,078 respectively. The Company recognized a gain of \$135,980 from the revaluation of the derivative and stock option liabilities for the six months ended December 31, 2016 compared to a loss of \$1,219,634 for the six months ended December 31, 2015. Excluding the impact of changes in the fair value of the derivative and stock option liabilities, non-cash items relating to amortization, warrants and shares issued for services, and stock option expense totaled \$442,596 for the six months ended December 31, 2016. Non-cash items relating to the loss due to amortization, changes in warrant terms, warrants and shares issued for services and stock option expense totaled \$1,863,010 for the six months ended December 31, 2015. The most significant changes in non-cash working capital for the six months ended December 31, 2016 were cash used in a reduction of accounts payable and accrued liabilities of \$68,369 and cash from an increase in related party payables of \$161,937. The most significant changes in non-cash working capital for the six months ended December 31, 2015 were cash used in a reduction of accounts payable and accrued liabilities of \$283,164, cash used in a reduction of related party payables of \$34,086, and cash flow from a decrease in prepaid expenses of \$77,536.

Investing Activities

There were no investing activities for the six months ended December 31, 2016 while during the six months ended December 31, 2015 the Company incurred \$16,762 in cash costs for the development of its web site

Financing Activities

During the six months ended December 31, 2016 and 2015 the Company received \$326,699 and \$405,183 respectively from the exercise of warrants. During the six months ended December 31, 2015 the Company also received \$2,453,633 in net proceeds from the completion of a public offering by the Company of common stock and common stock purchase warrants. Including deferred costs recorded by the Company at June 30, 2015, the total net cash proceeds of the offering were \$1,903,514. In addition, the Company recorded \$4,178 related to the dividend payable to Valent during each of the six months ended December 31, 2016 and 2015 respectively.

Operating Capital and Capital Expenditure Requirements

Going Concern

(See note 1 to the consolidated condensed interim financial statements)

The consolidated condensed interim financial statements included in this report 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.

For the six months ended December 31, 2016, the Company reported a loss of \$3,612,312, negative cash flow from operations of \$3,062,408 and an accumulated deficit of \$36,321,403 at that date. As at December 31, 2016, the Company has cash and cash equivalents on hand of \$3,417,377 and a working capital balance of \$2,845,141. The Company is in the development stage and has not generated any revenues to-date. The Company does not have the prospect of achieving revenues until such time that its product candidate is commercialized or partnered which may not ever occur. In the near future, the Company will require additional funding to maintain its research and development projects and for general operations. These circumstances indicate the existence of a material uncertainty that may cast substantial doubt as to the ability of the Company to meet its obligations as they come due.

Consequently, management is pursuing various financing alternatives to fund the Company's operations so it can continue as a going concern. 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 do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

There is no assurance that our cost estimates will prove to be accurate or that unforeseen events, problems or delays will not occur with respect thereto. 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 the Company raises.

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, economic conditions may affect 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 a partner 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 presentation of all of the Company's significant accounting policies and the estimates derived there from is included in Note 2 to the Company's consolidated financial statements for the year ended June 30, 2016 contained in our Form 10-K filed with the SEC on September 13, 2016. 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:

Warrants and shares issued for services

Stock options

Derivative liability

Warrants and shares issued for services

Periodically, 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.

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 non-cash expenses. 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 required for a smaller reporting company.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation (as required by Rule 13a-15 under the Exchange Act) of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report, due to the material weakness in internal control over financial reporting as discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2016, filed with the SEC on September 12, 2016.

Changes in internal controls

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 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 required for a smaller reporting company.

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

During the three months ended December 31, 2016, we issued 22,188 shares of common stock upon exercise of warrants for proceeds of \$69,759, and 50,096 shares of common stock as dividends on our outstanding shares of Series B Preferred Stock.

In connection with the foregoing, we relied upon 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.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

No.	Description
10.1	Employment agreement between Delmar Pharmaceuticals Inc. and Delmar Pharmaceuticals (BC) Ltd. and Jeffrey Bacha.
10.2	Employment agreement between Delmar Pharmaceuticals Inc. and Delmar Pharmaceuticals (BC) Ltd. and Scott Prail.
10.3	Amendment to consulting agreement between Delmar Pharmaceuticals (BC) Ltd. and Dennis Brown
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

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

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: February 10, 2017 By: /s/ Jeffrey Bacha
Jeffrey Bacha
Chief Executive Officer
(Principal Executive Officer)

Date: February 10, 2017 By: /s/ Scott Prail
Scott Prail
Chief Financial Officer
(Principal Financial and Accounting Officer)