Critical Outcome Technologies Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

As at December 19, 2007

Fiscal 2008 – Second Quarter Interim Period ended October 31, 2007

The following discussion and analysis explains trends in Critical Outcome Technologies Inc.'s ("COTI" or the "Company") financial condition and results of operations for its second quarter ended October 31, 2007. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This document has been prepared as at December 19, 2007 and should be read in conjunction with the Company's interim financial statements of October 31, 2007 and the annual audited financial statements for the year ended April 30, 2007 and notes thereto which can be found on SEDAR at www.sedar.com. All dollar figures are Canadian dollars.

This MD&A contains certain statements which constitute "forward-looking statements" within the meaning of the *Securities Act* (Ontario) and applicable securities laws. These forward-looking statements, by their nature, are not guarantees of future performance and are based upon management's current expectations, estimates, projections and assumptions. COTI operates in a highly competitive and regulated environment that involves significant risks and uncertainties which could cause actual results to differ materially from those anticipated in these forward-looking statements. Management of COTI considers the assumptions on which these forward-looking statements are based to be reasonable, but as a result of the many risk factors, cautions the reader that actual results could differ materially from those expressed or implied in these forward looking statements.

Company Overview

COTI is a reporting issuer based in London, Ontario, resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. ("Aviator", a public company listed on the TSX Venture Exchange ("TSXV") under the symbol "AVC") and Critical Outcome Technologies Inc. (a private company) under the provisions of the Business Corporations Act (Ontario). The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. ("COTI").

COTI is a biotechnology company focused on applying its proprietary computer technology, CHEMSAS®, to identify, profile and optimize commercially viable drug candidates at the earliest stage of preclinical drug development and thereby dramatically reduce the timeline and cost of getting new drug therapies to market.

In developing its technology, COTI has focused on novel, proprietary, small molecules used to treat cancer and HIV. This focus has been on cancers with high morbidity and mortality such as acute leukemia in adults, hormone resistant breast cancer, hormone resistant prostate cancer, small cell lung cancer and melanoma, which currently have either poor or no effective therapies.

Using CHEMSAS® the Company is developing a pipeline of highly optimized libraries of 6-10 small molecules for specific therapy targets and plans to sell/licence these libraries to interested pharmaceutical partners for human trials and further drug development. Currently, the libraries in various stages of development in the pipeline are targeted at small cell lung cancer, colorectal cancer, HIV integrase inhibitors, chronic and acute leukemia and multiple sclerosis.

In addition to its targeted library pipeline the Company may also take particularly promising individual molecules forward for development outside of the library development approach. These molecules would follow the same development process and approach as the library molecules except the process would involve some preclinical and clinical *in vitro* and *in vivo* testing. These compounds will then be available for sale, licensing or co- development with a pharmaceutical partner.

Investment in DDP Therapeutics

As announced on November 29, 2007 the Company completed its acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of DDP (Share Purchase) not already owned by the Company and the purchase of certain 5% promissory notes owing by DDP to two of the Sellers on the terms announced by the Company on September 17, 2007. Ownership of DDP prior to completion of the Share Purchase consisted of: COTI 10%, Dr. Wayne Danter, President of COTI, 10%, Whippoorwill Holdings Limited, a wholly owned company of Mr. John Drake, the CEO of COTI 40% and 2080084 Ontario Inc., an unrelated party, 40%.

The purchase price under the Share Purchase was determined to be $4,270,894 based on 90% of the net book value of DDP using an agreed value for the molecules owned by DDP of $5,500,000. Proceeds from the private placement (noted above) in the amount of $630,000 were used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make cash payment of $187,858 for the common shares of DDP. The Company also issued a promissory note in the amount of $370,000 payable to Whippoorwill Holdings Limited in exchange for the assignment of the promissory note held by Whippoorwill Holdings Limited from DDP. The promissory note matures for payment on July 31, 2008 and bears interest at the rate of 5% per annum.

One-half of the balance of the purchase price for the DDP common shares was satisfied by the issuance of 1,431,441 common shares of COTI to the Sellers at the same issue price per share paid on the private placement ($1.40) and 1,431,441 common shares of COTI, representing the other one-half of the balance of the purchase price, have been conditionally allotted and reserved for issuance to the Sellers upon the molecules achieving certain development milestones. One-half of the remaining Share Consideration will be issued on the first to occur of: the issuance by the Federal Food and Drug Administration of the United States (FDA) of notification of acceptance of an investigational new drug (IND) filing in respect of any of the molecules and receipt of the IND acceptance # document in respect of the molecule; or the issuance of a final patent in respect of any of the molecules by European or US patent authorities. The remaining one-half of the remaining Share Consideration will be issued to the Sellers on the first to occur of: the issuance by the FDA of notification of acceptance of an IND filing for any molecule in respect of which a final patent has been issued in the US or Europe; or the issuance of a final patent in the US or Europe for any molecule in respect of which the FDA has given notice of acceptance of an IND filing and has issued the IND acceptance number document.

Should the milestones not be reached by the eighth anniversary of the Closing, the Company has the option to either (i) issue the remaining Share Consideration to the Sellers or (ii) pay the Sellers the amount, if any, by which the fair value of the molecules exceeds the amount invested in the molecules by COTI, including the amount of the investment of Share Consideration issued to the Sellers up to that point. The determination of the fair value of the molecules shall be made by agreement between the Company and the Sellers or, failing such agreement, shall be determined by arbitration as described in the definitive documents. The amount of the investment by the Company in the molecules shall be verified by the Company's auditors if requested by the Sellers. If the fair value of the molecules at that time is less than the amount invested in the molecules by the Company, no amount shall be payable to the Sellers.

The common shares issued under the Share Purchase are subject to a four month hold from the date of closing the Share Purchase until the close of business on March 29, 2008.

The Business Conduct Review Committee of the Board of COTI, composed entirely of independent Directors of the Board, recommended completion of the Share Purchase to the Board and the Board unanimously approved completion of the Share Purchase.

The Share Purchase received final acceptance from the TSXV on November 29, 2007.

As a wholly owned subsidiary the operating results of DDP will be consolidated with those of the Company in its future interim and annual financial reporting.

Private Placement

Subsequent to the quarter end, on November 29, 2007, the Company completed a brokered private placement of common shares with accredited investors in Ontario for gross proceeds of $4,000,000. The issue price of the common shares was $1.40 per common share. The Company retained Northern Securities Inc. to act as agent for the private placement. The agent received a cash fee of $280,000 equal to 7% of the gross proceeds raised. For the six months ended October 31, 2007 the Company had incurred $40,514 in legal and regulatory costs related to this financing.

The private placement received acceptance from the TSX Venture Exchange (TSXV) on November 29, 2007. The common shares issued under the offering are subject to a four month hold from the date of closing the private placement until the close of business on March 29, 2008.

The proceeds of the private placement are planned to be used for product development, research and development, and other corporate purposes with $630,000 being paid as the cash component of the total consideration payable by the Company to purchase the shares and promissory notes of DDP as discussed above.

Results of Operations

For the three month period ended October 31, 2007 the Company incurred a net loss of $(519,968) or $(0.01) per share compared to a net loss of $(113,997) or less than $(0.01) per share for the corresponding period in 2006.

These results reflect the increased business activity of the Company as it advanced its technology forward in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 which was focused on raising funds through the private placement which closed on October 11, 2006 and the subsequent public market listing on the TSXV on October 30, 2006.

For the six month period ended October 31, 2007 the Company recorded a net loss of $(1,020,426) or $(0.03) per share compared to a net loss of $(277,085) or less than $(0.01) per share for the six month period ending October 31, 2006. The more recent period reflects the pre-financing and pre-public listing development stage of the Company compared to the earlier period where strong commercialization and development efforts have been underway.

Summary of Quarterly Results

Table 1, which appears on page 5, sets out the operating results for the ten most recent quarters of the Company.

The Table shows there were no operating revenues generated by the Company in the most recent quarter ended October 31, 2007. Over the ten quarters revenue is observed to be extremely modest consisting of screening and contract service revenue as the Company focused on developing its molecular libraries. The increasing quarterly loss trend reflects the Company's ramp up of product and business development activities for its molecule libraries as well as the administrative costs of increased business activity and the requirements of a public company.

Total synthesis costs of $266,389 were incurred during Q-3 of FYE 2007 through Q-1 of FYE 2008. There were no synthesis costs incurred during the quarter ended October 31, 2007. The Company expects these synthesis costs to increase substantially for the balance of fiscal 2008 and 2009. This will occur as the Company conducts further synthesis and *in vitro* and *in vivo* confirmatory testing on the SCLC molecule library of COTI's wholly owned subsidiary DDP Therapeutics, as well as additional molecules from the Company's multiple sclerosis and HIV libraries.

Table 1: Quarterly Results Summary

FYE 2008	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ -	$ -			$ -
Total loss before other income	(524,674)	(604,035)			(1,128,709)
Other income	24,216	84,067			108,283
Total net loss	$ (500,458)	$ (519,968)			$ (1,020,426)
Net loss per share	$ (0.01)	$ (0.01)			$ (0.03)

FYE 2007	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ 2,500	$ -	$ -	$ -	$ 2,500
Total loss before other income	(163,088)	(191,259)	(515,696)	(675,470)	(1,545,513)
Other income	-	77,262	14,391	23,877	115,530
Total net loss	$ (163,088)	$ (113,997)	$ (501,305)	$ (651,593)	($1,429,983)
Net loss per share	$ (0.01)	$ -	$ (0.02)	$ (0.02)	$ (0.05)

FYE 2006	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ -	$ 30,000	$ 2,500	$ -	$ 32,500
Total loss before other income	(37,235)	(56,286)	(73,437)	(430,400)	(597,358)
Other income	(220)	220	6,649	(220)	6,429
Total net loss	$ (37,455)	$ (56,066)	$ (66,788)	$ (430,620)	$ (590,929)
Net loss per share	$ -	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.06)

Contained in the total loss before other income is significant non-cash expense related to stock option compensation recorded in the four most recent quarters totaling $808,083 as set out in Table 2. This represents 34.6% of the total loss before other income recorded during this period.

The Company's cumulative stock option compensation since inception totals $1,058,043 of the total deficit reported to date of $3,382,033 or 31.3%. The potential cash raise from the exercise of all stock options granted during the four quarter period set out in Table 2 and outstanding at December 19, 2007 is $1,361,550.

Table 2: Stock Option Compensation Summary

Fiscal Year	Interim Period	Stock Option Compensation
2008	Q2 – Oct 31, 2007	$223,705
2008	Q1 – July 31, 2007	159,909
2007	Q4 – April 30, 2007	210,764
2007	Q3 – Jan 31, 2007	213,705
	Total	$808,083

Financial Condition

As at October 31, 2007 the Company had available cash of $2,936,448 compared to $2,417,801 at April 30, 2007. This increase of $518,647 is due primarily to funds generated from the exercise of common share purchase warrants as set out in Table 3.

Table 3: Warrant Exercise Summary

Quarter	Warrants Exercised	Gross Proceeds
Q1 – July 31/07	1,571,665	$ 944,824
Q2- Oct 31/07	530,477	356,338
Total	2,102,142	$ 1,301,162

The Company also generated cash on receipt of Ontario investment tax credits of $53,077 related to the April 30, 2007 fiscal year end and interest income of $30,990 on excess cash balances during the quarter ended October 31, 2007.

The Company's current assets increased to $3,056,376 on October 31, 2007 from $2,522,551 at April 30, 2007. Current liabilities increased $21,806 to $359,772 on October 31 from $337,966 at April 30, 2007. This provides working capital of $2,696,604 at October 31, 2007.

The increase in current liabilities reflects a $39,622 increase in accounts payable offset by a reduction of $7,850 in the amount owing on shareholder advances resulting from payment of outstanding note interest and a $9,966 reduction in capital lease obligations as a result of the monthly lease payments. The increased accounts payable relate primarily to accrued vacation pay and salary due to the timing of the Company's month end and the pay period of the Company and to higher professional fees related to tax and accounting support activities. Included in current assets was $40,514 in deferred financing costs associated with the private placement which closed subsequent to the quarter end.

Subsequent to October 31, 2007 and to the date of this MD&A the Company realized additional cash on the exercise of 620,500 warrants for gross proceeds of $404,350. At December 19, 2007 the Company had available cash of $6,160,000.

Management believes it has sufficient cash resources to carry out its operations for the next 18 months at expected operating levels. However, in light of uncertainties associated with the development of its molecule libraries including identifying and securing suitable pharmaceutical customer prospects, further financing may be required to support the Company's operations in the future.

Operating Revenues

The Company did not generate any operating revenues in the three month periods ended October 31, 2007 or October 31, 2006.

The Company realized $30,990 in other income from interest earned on its excess cash balances in the three months ended October 31, 2007 compared to $2,212 in the comparable period for 2006.

In addition, $53,077 in Ontario investment tax credits (ITCs) were received in the October 31, 2007 quarter compared to $75,050 in both federal and Ontario ITCs in the comparable quarter for 2006. This quarter over quarter decrease reflects that the Company is no longer eligible for the refundable federal investment tax credits as a public company.

During the three month period ended October 31, 2007, the Company continued to focus on developing its libraries and building customer relationships for the sale or licence of its two lead molecule libraries for; small cell lung cancer (10% ownership interest during the quarter) and multiple sclerosis.

On October 17, 2007 the Company announced that it had signed a pilot project agreement with Merck Serono, a division of Merck KGaA of Darmstadt, Germany, to identify drug development candidates for a specific oncology cellular target. The scope of the project consists of COTI utilizing its proprietary technology CHEMSAS® to discover 4 to 6 novel drug candidates built on 2 to 3 scaffolds against a specific cellular target of importance to Merck Serono. Merck Serono will then evaluate the COTI-identified compounds and decide, at its own discretion, to synthesize and test the suitability of the molecules as leads for the cellular target. Merck Serono has the option to develop, independent of COTI, derivatives of the compounds identified by COTI. Merck Serono has agreed to provide confirmatory data to COTI demonstrating superiority of the derivative versus the COTI-proposed compounds.

Under the financial terms of the agreement, COTI is entitled to invoice for a non-refundable upfront payment from Merck Serono once data transfer from Merck Serono initiates the project. At the October 31, 2007 quarter end this data transfer had not yet occurred. Additional payments will be earned and invoiced based upon achievement of individual milestones in the preclinical development of the drug candidates discovered by COTI. The total amount of milestone payments will be driven by the number of scaffolds Merck Serono decides to take forward and successfully develop.

This pilot project affords the Company the opportunity to further validate its technology via a revenue-driven initiative. The pilot project is also aligned with COTI's goal of accelerating the process of getting novel treatments to market and supports the business development focus placed on the use of pilot projects as a means to developing relationships with major pharmaceutical companies.

Operating Expenses

For the three month period ended October 31, 2007 total operating expenses were $604,035, an increase of $412,776 compared with $191,259 for the comparable prior year period. The increase in total operating expense is primarily due to the increase in the four expense categories set out in Table 4.

Table 4: Major Expense Changes Q2-2008 Compared to Q2-2007

Expense	Q2-2008 October 31 2007	Q2-2007 October 31 2006	Variance Favourable (Unfavourable)
Stock option compensation	$ 223,075	$ -	$ (223,075)
Salaries and benefits	166,761	92,578	(74,183)
Professional fees	84,955	15,700	(69,255)
Corporate governance	35,825	-	(35,825)
Total	$ 510,616	$ 108,278	$ (402,338)

- The stock option compensation increase reflects the granting of 25,000 stock options to each of the four members of the Scientific Advisory Committee for a total of 100,000 options in October 2007. These options which vested immediately were valued at $176,700 based upon a Black Scholes model. The balance of the stock option compensation represents the recording of the pro-rata share of prior period unvested option grants. There were no option grants in the three months ended October 31, 2006.

- The increase in salaries and benefits reflects the higher staffing level of 6.5 full time employees in Q2-2008 compared to only 3.9 employees at Q2-2007. The Company introduced an employee benefits program effective October 1, 2007 which based upon an employee workforce of 6 people would have an annual premium cost to the Company of approximately $20,000 on a go forward basis.

- The professional fees increase relates primarily to accounting fees for various tax, accounting support matters and final 2007 audit fees, legal costs related to the increased corporate governance associated with being a public company and the increased business activity in the Company. In addition, the Company incurred consulting costs for human resource, sales and IT which were not incurred in the comparable prior period.

- The corporate governance expense increase relates to the costs associated with public company compliance such as SEDAR filings and press releases, with the single largest cost item being the annual general meeting costs. COTI was a public company for only two days in the comparable Q2-2007 and accordingly did not incur such costs during that period.

Income Taxes

The Company is not in a taxable position as it has not generated a profit since inception. The Company has temporary timing differences that could give rise to future tax assets as well as non-capital losses and research and development expenditures which may be applied to reduce taxable income of future years. Details of these balances can be found in note 11 of the Notes to the Financial Statements for the interim financial statements of October 31, 2007. Management cannot discern when a profit will occur so it is possible that the Company will not realize some of these tax benefits.

Liquidity and Capital Resources

Operating Activities

For the three month period ended October 31, 2007 operating activities used $215,346 in cash. This compares with cash used of $150,102 in the three month period ending October 31, 2006. This increase in cash usage in Q2-2008 is due to the ramp up in operational activity from the earlier comparable period as reflected in the loss from operations.

For the six months ended October 31, 2007 operating activities used $564,262 in cash while the comparable six month period ending October 31, 2006 used $86,041 in cash. The focus of the six month period ending October 31, 2006 was on the raising of capital and the capital pool company transaction of going public in an amalgamation with Aviator as compared to the development of business operations which occurred in the six month period ending October 31, 2007.

Investing Activities

For Q2-2008 the Company used $190,197 in investing activities compared to only $10,010 in comparable Q2-2007. In Q2-2007 the Company invested $12,249 in patents compared to $10,010 invested in patents in Q2-2007. The Company also recorded in Q2-2008 an investment in equipment and leaseholds of $65,748 related to the renovation and expansion of its offices from 800 sq. ft. to 1600 sq. ft. Finally, the Company incurred $112,200 in legal, regulatory fees and consulting costs for due diligence related to the acquisition of the DDP shares. These costs have been recorded as an increase in the Company's investment in DDP.

In the six months ended October 31, 2007 the Company used $260,306 in investing activities compared to $18,960 in the comparable period ending October 31, 2006. Total patent investments were $17,307 (fiscal 2008) compared to $18,960 (fiscal 2007). For the six months ended October 31, 2007 the Company invested $125,693 in office furniture, equipment and leaseholds and $117,306 in its due diligence evaluation of the acquisition of DDP. There were no such costs incurred in the prior fiscal year comparable period.

Financing Activities

For the three month period ended October 31, 2007 the Company generated $416,446 in cash from financing activities compared to generating $2,374,287 for the three months ended October 31, 2006. Net equity financing from common share warrant exercises of $421,472 offset by $5,026 in capital lease obligation repayments accounted for the increased cash in Q2-2008. The significantly higher cash generated from financing in Q2-2007 relates to the closing on October 11, 2006 of a common share private placement.

Related Party Transaction

As part of the acquisition of the DDP shares the Company negotiated an amendment to an existing bonus agreement between DDP and Dr. Wayne Danter, the President of the Company, as a consultant to DDP. Under the bonus agreement, upon the Company or DDP obtaining a Phase Three Financing, Dr. Danter is entitled to a bonus payment based upon the net proceeds of the financing and provided certain milestones are met at the time the Company or DDP obtains the financing on any of the ten molecules comprising the small cell lung cancer molecules (SCLC). A Phase Three Financing is defined as a successful financing with a biotech or pharmaceutical company in the development of the SCLC. The milestones and bonus payments are as follows:

Percentage of net proceeds to be paid to consultant	Milestone achieved by company
1%	Preclinical *in vitro* and *in vivo* testing of three drug candidates for safety and efficacy has commenced (PK/tox testing invoked)
2%	An investigational new drug application has been filed with the United States Food and Drug Administration for human tests of any of the drug candidates
2%	Phase 1 clinical trial of any drug candidate has commenced

Net proceeds means the gross amount realized from the Phase Three financing less the direct costs incurred by the Company in completing such financing. It was agreed that the financing completed by the Company to acquire the shares of DDP and fund the development of the SCLC, net of the cash used to acquire the promissory notes, constituted a Phase Three Financing. This triggered a payment of the first milestone the amount of which has not yet been determined pending finalization of the direct costs of the financing.

Outstanding Common Shares

Outstanding share information at the close of business December 19, 2007 is set out in Table 5.

Table 5: Outstanding Share Data

		Outstanding	Expiry Date
Common shares			
Authorized - unlimited			
Issued		44,608,278	
Fully diluted		48,908,847	
Weighted average outstanding (1)		39,221,650	
Common share purchase warrants			
$0.40 warrants		166,666	April 18/08
$0.40 agent warrants		77,805	Oct 12/08
$0.60 warrants		1,000,000	July 15/08
$0.70 warrants		1,491,098	April 12/08 to Feb14/09
		2,735,569	
Common share options			
	$0.64	1,035,000	Jan 11/12
	$0.70	50,000	Jan 14/12
	$1.34	150,000	Mar 25/12
	$1.00	130,000	April 30/12
	$1.34	100,000	May 10/12
	$2.00	100,000	Oct 8/12
		1,565,000	

(1) Weighted ave shares outstanding calculated from May 1, 2007 to December 19, 2007.

Critical Accounting Policies and Estimates

The financial statements of the Company were prepared in accordance with Canadian GAAP with the exception of the new CICA handbook section 1530 on Comprehensive Income as discussed below.

Certain accounting policies require management to make estimates, assumptions and judgments relating to the reported amounts of revenue and expenses, assets and liabilities and disclosure of contingent assets and liabilities. Estimates and assumptions used by management are based upon past experience and other factors deemed reasonable in the circumstances. Management regularly evaluates the assumptions and estimates that are used in the preparation of the Company's financial statements. Since these estimates and assumptions involve varying degrees of judgment and uncertainty, the amounts reported in the financial statements could vary materially in the future from current estimates.

COTI has identified one critical accounting policy and estimate related to stock-based compensation and other stock-based payments, which is highly uncertain at the time of the estimate and is reasonably likely to occur from period to period. Changes in this estimate could have a material impact on the Company's financial condition, changes in financial condition or results of operations as discussed below.

Stock-based compensation and other stock-based payments

Stock-based compensation and other stock-based payments are accounted for using the fair value based method, whereby compensation cost is measured at fair value as determined by a Black Scholes valuation model (BSM) at the date of grant and are expensed to stock-based compensation over the award's vesting period.

The BSM uses subjective assumptions such as expected price volatility, expected life of options, future dividends, and risk free interest rates. Changes in these input assumptions can significantly affect the fair value estimate. The most significant assumption impacting the valuation of the option in the BSM is expected volatility.

During the initial start up period of being a public company estimates of volatility had to be made without benefit of trading history. In this regard the Company placed reliance on the historic experience of three comparable biotech companies which went public in the preceding calendar year of 2005. Simple statistical data was used looking at variance around average trading prices, highs and lows and how this might relate to COTI. The initial stock-based compensation grants in January 2007 used a volatility rate of 60%. As trading data accumulated a mathematical model used in the BSM was adopted. As a public company for only six months at April 30, 2007 and with a relatively low share trading price the impact of small price changes had a significant impact on the volatility calculation. The rate was determined for this period to be 145%.

The Company is using this mathematical model for volatility within the BSM on a go forward basis using a rolling 6 month trading history calculation. The volatility calculated up to the end of each quarterly interim period on this basis will be applied to any options issued during the subsequent quarterly period. The volatility calculated for the six month period ending October 31, 2007 was 120%.

For the quarter ended October 31, 2007, total stock-based compensation expense of $176,700 was calculated using the Black Scholes option pricing model of which the entire amount was expensed in the quarter. In addition, $46,375 of stock-based compensation was expensed in the period related to prior period stock option grants. An equivalent amount was credited to contributed surplus.

HB section 1530 Comprehensive Income

This standard requires that the Company present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. This means that certain gains and losses arising from changes in fair value will be temporarily recorded outside the statement of earnings in a new statement of comprehensive income. Unrealized gains or losses on qualifying hedging instruments, foreign currency and unrealized gains or losses on financial instruments held for sale will be included in comprehensive income. The Company does not currently use hedging instruments and has only very minor exposure to foreign denominated accounts payable.

The Company has determined that the carrying value of its short term financial assets and liabilities, including cash and cash equivalents, other receivables, accounts payable and accrued liabilities, due to shareholders and other advances, approximates their fair value because of the relatively short periods to maturity of these instruments.

The fair value of the note payable and the obligation under capital lease approximates their carrying value because the interest rate charged approximates current market rates of interest.