Critical Outcome Technologies Inc.

Management Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations for the fiscal year ended April 30, 2008

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the year ended April 30, 2008, and have been prepared with all information available up to and including July 21, 2008. 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 analysis should be read in conjunction with the audited financial statements and notes thereto for the year ended April 30, 2008. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly interim reports and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

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.

The Company

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. and listed on the TSX Venture Exchange ("TSXV") under the symbol COT.

COTI is a biotechnology company focused on applying its proprietary computer-based 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, multiple sclerosis 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 colorectal cancer, which currently have either poor or no effective therapies.

Using CHEMSAS® the Company is developing a pipeline of highly optimized libraries of 6 to 10 small molecules for specific therapy targets and plans to license these molecules 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, multiple sclerosis, HIV integrase inhibitors, adult acute leukemia, and colorectal cancer.

In addition to its targeted library pipeline the Company may also take particularly promising individual molecules forward for development beyond the library development stage. These molecules would follow the same development process and approach as the library molecules except the process would involve additional preclinical testing (for instance, with an investigational new drug application (IND filing) in the United States or a new drug submission (NDS) in Canada) and clinical human studies (Phase 1 only). These compounds would then be available for licensing or co-development with a pharmaceutical partner. In this regard, on December 18, 2007, COTI announced its intention to prepare a Phase 1B Health Canada clinical trial submission, for which it continues to plan, based on the positive preclinical results achieved from COTI-2, its lead cancer molecule for small cell lung cancer.

Acquisition of DDP Therapeutics

On November 27, 2007, the Company completed an acquisition from Whippoorwill Holdings Limited, 2080084 Ontario Inc. and Dr. Wayne Danter (Sellers) of all the outstanding common shares in the capital of 6441513 Canada Inc (Share Purchase) operating as DDP Therapeutics (DDP) not already owned by the Company and the purchase of two 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 supported by an external valuation of DDP and an agreed upon value for the 10 small cell lung cancer molecules (Molecules) owned by DDP of $5,500,000. Payment consisted of two parts; one part settled on closing and the second part contingent on the achievement of certain milestones as outlined in the agreement.

The purchase cost recorded by COTI on closing was $3,172,967. Part of the proceeds, in the amount of $637,105, from a contemporaneous $4.0 million private placement, were used to acquire the promissory note of 2080084 Ontario Inc., pay the accrued interest on the promissory notes and make a partial payment of $194,963 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.

The balance of the purchase price was paid in common shares of COTI (Share Consideration).

One-half of the Share Consideration issuable for the purchase price for DDP was satisfied by the issuance of 1,431,441 common shares of COTI to the Sellers. The shares issued were valued at $1.40, the same issue price per share paid on the private placement.

An additional 1,431,441 common shares of COTI, representing the other one-half of the Share Consideration (Contingent Consideration), have been conditionally allotted and reserved for issuance to the Sellers upon the Molecules achieving certain development milestones.

One-half of the Contingent Consideration will be issued on the first to occur of: the issuance by the U.S. Food and Drug Administration (FDA) of notification of acceptance of an IND filing in respect of any of the Molecules and receipt of the IND acceptance number 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 final balance of the remaining Contingent 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 Contingent 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 Share Purchase. 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 were subject to a four month hold from the date of closing the Share Purchase until the close of business on March 29, 2008.

As part of the acquisition of DDP, the Company negotiated an amendment to an existing bonus consulting agreement between DDP and Dr. Wayne Danter, the President of the Company. Under the amended bonus consulting agreement a payment in the amount of $30,359 was paid by the Company to Dr. Danter in February 2008 for having reached a milestone outlined in the bonus agreement.

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.

The acquisition of DDP has been accounted for as a purchase of assets because DDP does not meet the definition of a business under EIC 124 of the CICA Handbook. Total consideration, as determined by the issuance of common shares at the same share price of $1.40 paid on the private placement plus cash paid, plus the assumption of certain liabilities and payment of transaction costs, was $3,172,967. The total consideration was allocated to the assets acquired and liabilities assumed based on the estimated fair values on the date of acquisition as follows:

Assets acquired:		
Cash	$	15,178
Other receivables		93,516
Intangible assets - molecules		3,111,169
		3,219,863
Less liabilities assumed:		
Accounts payable and accrued liabilities		46,896
Net assets acquired	$	3,172,967
Consideration paid:		
Cash	$	637,105
Common shares issued		2,004,017
Debt assumed		370,000
Acquisition costs paid		161,845
	$	3,172,967

In accounting for the acquisition, a net future tax liability was required to be recognized for temporary differences associated with non-capital tax loss carry forward balances and scientific research and expenditure development pools of DDP as well as the valuation of the purchased Molecules. The future tax liability has not been recorded in the financial statements due to the reduction in the valuation allowance against the Company's existing unrecognized future tax assets.

In an asset purchase transaction, the future milestone events, noted above, represent contingent transactions which consideration will be accounted for at the time, if any, that the contingent event occurs and is settled, in accordance with CICA HB 3290. The amount of consideration given up at the time such transaction occurs will be added to the Molecules up to their fair value with a corresponding increase in share capital, if share consideration, or a reduction in cash, if a cash payment.

The Molecules acquired represent intangible assets and accordingly must be amortized over their useful lives to the Company. In addition, the Company must also assess as part of its accounting practices whether there has been any impairment of these long lived assets. The Company has determined it is not possible to establish the likelihood of the milestones being

achieved with certainty given the inherent risks of the development process in the industry, the extensive additional testing required to work through an IND filing and ultimate approval by the FDA or a patent authority. Accordingly, the Company is amortizing the Molecule costs over the eight years to the anniversary date on November 27, 2015. The Company has determined there has been no impairment in the value of the Molecules from purchase in November 2007 to the date of this report.

Selected Annual Information

Table 1 provides selected financial data from the financial statements of the Company for the last three fiscal years.

Revenue during the three year period has only consisted of contract services and screening revenues. Revenue in 2008 was generated from the Company's collaboration agreement with Merck Serono. $32,500 of the revenue in the prior two years came from services provided to DDP.

Other income came from two sources; first, the cash recovery of refundable investment tax credits (ITC) of eligible expenditures under the Canadian Scientific Research & Experimental Development (SR&ED) program and the Ontario Innovation Tax Credit (OITC) program; and second, from interest income on the Company's excess cash balances. The Company will continue to avail itself of the ITC programs in the future. Interest income of $177,166 was earned in 2008 compared to $40,480 in 2007 through short-term investments in high quality liquid securities.

Table 1: Selected Financial Information
for the years ended April 30

	2008	2007	2006
Revenue per financial statements	$ 30,822	$ 2,500	$ 32,500
Loss before other income	(2,129,650)	(1,545,513)	(597,358)
Loss per common share before other income	$ (0.05)	$ (0.05)	$ (0.06)
Other income	227,278	115,530	6,429
Total net loss	(1,902,372)	(1,429,983)	(590,929)
Total net loss per common share	$ (0.05)	$ (0.05)	$ (0.06)
Dividends declared and paid	$ -	$ -	$ -
Total assets	9,714,118	2,710,280	288,781
Long term financial obligations	$ 1,263	$ 21,287	$ 33,525

The increasing trend of the total net loss reflects the Company's increased activity and expenditures in developing its technology and bringing its molecules forward to commercialization in its first full year of operation as a public company. The necessary

infrastructure for administration and business development was started in 2005 with the hiring of the Company's first paid employee which has grown to its current complement of 7 paid full-time employees. Stock-based compensation expense and salaries and benefits totaled $1,025,433 in 2008, $847,483 in 2007, and $400,465 in 2006. In 2008, research and development (R&D) labour costs rose to $246,147 compared to $156,686 in 2007. In addition to R&D labour, the Company incurred product development and synthesis costs in 2008 totaling $148,981 compared to $263,400 in 2007. To further support its research efforts, the Company contracted an intellectual property (IP) consultant during fiscal 2008 incurring a cost of $43,919 as the Company continued to implement its business development plan.

The significantly larger balance for total assets in 2008 compared to prior years relates to the success of the Company's financing efforts during 2008 and the purchase of DDP and its underlying Molecules in November 2007. During the year, the Company completed a private placement of 2,857,143 common shares with gross proceeds of $4,000,000. The Company also realized gross proceeds of $2,387,305 from the exercise of warrants during the year. The carrying value of the Molecules purchased from DDP net of amortization is $2,949,129 at April 30, 2008.

At April 30, 2008, cash, cash equivalents and short-term investments totaled $6,213,709 compared to $2,417,801 in 2007.

Results of Operations – for the year ended April 30, 2008

For the year ended April 30, 2008 (FYE 2008), the Company reported a net loss of $1,902,372 or $0.05 per common share compared to a net loss of $1,429,983 or $0.05 per common share in the year ended April 30, 2007 (FYE 2007). This increased loss of $472,389 resulted from the increased level of activity in the Company during FYE 2008 as the Company moved forward during its first full year as a public company to commercialize its molecule libraries by putting in place the personnel and business processes to support the development efforts of the CHEMSAS® technology and molecule libraries being developed.

Revenues

Revenue of $30,822 was recorded in FYE 2008 compared to $2,500 in FYE 2007 as the Company received its first collaboration payment from the Merck Serono project which commenced in the fourth quarter of FYE 2008.

Investment tax credit (ITC) income of $50,112 was generated in FYE 2008, based upon eligible expenditures, compared to $75,050 in FYE 2007. The lower ITC income reflects that COTI as a public company is no longer eligible for cash refunds under the federal SR&ED program but the eligible ITCs are deductible against taxes payable as incurred. The Company expects to continue to receive refundable ITCs for eligible expenditures under the OITC program in the current and future years.

The Company earned $177,166 in interest income on its cash balances in FYE 2008 compared to $40,480 in FYE 2007. This reflected the significantly higher cash balances held by the Company during the year compared to FYE 2007. This income was impacted by the declining short term interest rates available in the market on high quality investments during FYE 2008 compared to FYE 2007.

Operating Expenses

Operating expenses increased from $1,548,013 for FYE 2007 to $2,160,472 for FYE 2008, an increase of $612,459. Four expense items as set out in Table 2 accounted for $ 471,074 of this change or 76.9 % of the total expense increase.

Table 2: Major Expense Items

Expense	FYE 2008	FYE 2007	Change	Chg as a % of Total
Salaries and benefits	$ 662,670	$ 423,014	$ 239,656	39.1%
Professional fees	351,835	168,038	183,797	30.0%
Research and product development [(1)]	148,981	263,400	(114,419)	-18.7%
Amortization of molecules	162,040	-	162,040	26.5%
	1,325,526	854,452	471,074	76.9%
Other expenses	834,946	693,561	141,385	23.1%
Total	$ 2,160,472	$ 1,548,013	$ 612,459	100.0%

[(1)] Consists of contracted R&D testing and materials plus contracted synthesis costs.

1. Salaries and benefits increased by $239,656 reflecting a full year of increased staff levels of 7 employees compared to FYE 2007 which started the year with 3 employees. The Company also implemented an employee benefits plan effective October 1, 2007. Annual premium cost to the Company with current staffing levels is approximately $20,000.

2. Professional fees increased $183,797 related to five categories as set out in Table 3 below.

   Table 3: Professional Fees

	FYE 2008	FYE 2007	Change
Audit and accounting	$ 185,974	$ 58,819	$ 127,155
HR Consulting	38,540	-	38,540
IP Consulting	43,919	-	43,919
Legal fees	64,450	44,951	19,499
Sales & marketing	18,952	64,268	(45,316)
	$ 351,835	$ 168,038	$ 183,797

   The increase in audit and accounting relates to higher costs for a public company audit, financial reporting support related to new accounting pronouncements, tax compliance

and SR&ED claim support. A human resource consultant was engaged to assist the Company in its hiring and organizational development activities. An intellectual property consultant was engaged on a periodic basis to support the R&D product development strategies of the Company and ensure effective patenting processes were in place and appropriately executed.

The increased legal costs related to support of corporate governance matters as a public company and the higher level of business development activity with the ongoing affairs of the Company. These increased costs were offset by a decline in sales and marketing consulting as a contract with one of the Company's directors to supply such services concluded on June 30, 2007.

3. Research and product development costs from third party contracting declined by $114,419 related primarily to synthesis costs as the Company completed the multiple sclerosis synthesis started in FYE 2007 and did not commence synthesis on any new libraries during FYE 2008. Table 4 summarizes the third party R&D costs for FYE 2008 and FYE 2007 in conjunction with the internal R&D labour costs. Overall R&D declined $24,958 in FYE 2008 compared to FYE 2007 but internal R&D labour costs increased as work was done in the computer lab on the various libraries in preparation for synthesis and in particular the Merck Serono project.

Table 4: R&D Costs

	FYE 2008	FYE 2007	Change
R&D labour	$ 246,147	$ 156,686	$ 89,461
Contract R&D testing and materials	129,214	15,840	113,374
Contract Synthesis	19,767	247,560	(227,793)
	$ 395,128	$ 420,086	$ (24,958)

Use of Proceeds

During FYE 2007, the Company closed a financing pursuant to an Offering Memorandum (OM) dated September 13, 2006.

The OM set out how COTI intended to use the net proceeds raised for a maximum period of 24 months following the financing close. Table 5 below compares that projection against the spending for the 18 month period November 1, 2006 to April 30, 2008 for the respective categories outlined in the OM. This comparative period reflects the commencement of trading on the TSXV on October 30, 2006.

Table 5: Comparison of Projected Use of Net Proceeds

Description of Use	24 Month Period Assuming Minimum [3]	24 Month Period Assuming Maximum [3]	Actual Nov 1/06 to April 30/08
Administration	$ 310,673	$ 580,673	$ 919,942
Sales and marketing	326,206	609,706	420,130
Product development	761,148	1,422,638	365,751
Research and development	155,336	290,346	444,561
Working capital deficiency [1] [2]	321,637	321,637	467,635
Total	$ 1,875,000	$ 3,225,000	$ 2,618,018

[1] The working capital deficiency figure used in the OM was as at August 31, 2006

[2] The working capital deficiency for April 30, 2008 is as of October 31/06 one day following listing on the TSXV.

[3] The minimum raise was $2.5M and maximum raise was $4.0M in the OM.

The actual spending to date has varied from initial projections due to higher administrative time and cost requirements of being a public company compared to expectations and product development costs being lower than anticipated as the Company focused on identifying potential customers prior to development. The working capital deficiency was greater by $154,998 at the end of October 2006 reflecting operational costs incurred in September and October 2006 and higher amalgamation costs than originally projected.

Two Year Operational Results Summary by Quarter

Table 6 below summarizes the operating results by quarter for the past two fiscal years.

Table 6: Two Year Summary of Quarterly Results
(unaudited)

FYE 2008	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenues	$ -	$ -	$ 30,822	$ -	$ 30,822
Total loss before other income	(524,674)	(604,035)	(331,269)	(669,672)	(2,129,650)
Other income	24,216	84,067	61,865	57,130	227,278
Total net loss	$ (500,458)	$ (519,968)	$ (269,404)	$ (612,542)	$ (1,902,372)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.05)

FYE 2007	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
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)

The increasing quarterly loss reflects the Company's acceleration of product and business development activities for its molecule libraries as well as the associated administrative costs of the business. Significant non-cash expense related to stock-based compensation of $787,232 is reflected in the two year period. Q4 2008 includes $162,040 of amortization associated with the small cell lung cancer molecules acquired on the acquisition of DDP in November 2007.

Analysis of Fourth Quarter 2008

For the three month period ended April 30, 2008 (Q-4 2008), the net loss amounted to $612,542 or $0.02 per share compared to a net loss of $651,593 or $0.02 per share for the period ending April 30, 2007 (Q-4 2007) as set out in Table 7 below. This decrease of $39,051 relates primarily to an increase in other income which increased $33,253 over Q-4 2007.

Table 7: Statements of Comprehensive Loss
three months ended April 30
(unaudited)

	FYE 2008 Q-4	FYE 2007 Q-4	Change
Revenues	$ -	$ -	$ -
Expenses:			
Salaries and benefits	126,596	147,517	(20,921)
Stock option compensation	(5,534)	210,764	(216,298)
Research and product development	117,379	490	116,889
Synthesis costs	-	149,620	(149,620)
Professional fees	103,596	68,605	34,991
Marketing	27,421	27,744	(323)
Office and general	6,057	12,951	(6,894)
Computer expense	2,281	1,149	1,132
Insurance	9,559	9,804	(245)
Rent	29,546	4,673	24,873
Interest and bank charges	23,395	1,802	21,593
Corporate governance	13,133	8,882	4,251
Directors' fees	35,000	-	35,000
Amortization of furniture & equipment	8,688	19,152	(10,464)
Amortization of molecules	162,040	-	162,040
Amortization of patents	4,270	-	4,270
Amortization of trademark	217	217	-
Loss on disposal of assets	1,977	-	1,977
Reorganization costs	4,051	12,100	(8,049)
Loss before other income	(669,672)	(675,470)	(5,798)
Other income	57,130	23,877	33,253
Loss and comprehensive loss	$ (612,542)	$ (651,593)	$ (39,051)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)	
Weighted average number of common shares outstanding	45,057,108	37,275,670	

Significant year over year quarterly changes occurred in; stock-based compensation, synthesis costs, amortization of molecules, and research and product development.

Stock-based compensation decreased $216,298 as there were no new options granted with immediate vesting in Q4 2008 compared to Q4 2007. In addition, there was a recovery of previously recorded stock-based compensation in the amount of $24,350 as a result of vested options expiring unexercised and unvested options being cancelled.

Synthesis costs declined $149,620 as there was no synthesis conducted in Q4 2008 compared to the prior year. However, contract research and development increased $116,889 primarily focused on COTI-2, the Company's most developed compound which has shown positive results not only for small cell lung cancer but across a number of cancer lines.

Amortization of the Molecules purchased with the acquisition of DDP commenced in the quarter with a charge of $162,040. The Molecules are being amortized over the 8 year period by which the Company must either pay the remaining contingent consideration either in cash or shares, or return the Molecules to the Sellers. Of the Molecules, only COTI-2 has provisional patents filed at this time with a 20 year life remaining on these.

Liquidity and Capital Resources

At FYE 2008, the Company had cash, cash equivalents and short term investments of $6,213,709 compared to $2,417,801 at FYE 2007 for an increase of $3,795,908 as summarized in Table 8 below.

Table 8: Summary of Capital Resources [(1)]
for the years ended April 30

	2008	2007	Change
Operating activities	$ (1,223,707)	$ (1,088,057)	$ (135,650)
Investing activities	(1,011,885)	(83,794)	(928,091)
Financing activities before issuance of common shares and warrants	(76,535)	(41,685)	(34,850)
(Decrease) in capital resources before issuance of common shares and warrants	(2,312,127)	(1,213,536)	(1,098,591)
Issuance of common shares and warrants	6,108,035	3,460,873	2,647,162
Increase in capital resources	3,795,908	2,247,337	1,548,571
Capital resources - beginning of year	2,417,801	170,464	2,247,337
Capital resources - end of year	$ 6,213,709	$ 2,417,801	$ 3,795,908

(1) Capital resources = cash, cash equivalents and short-term investments.

The presentation of capital resources is not consistent with GAAP wherein cashflows = cash and cash equivalents. Cash equivalents = investments of less than 90 days to maturity at date of acquisition.

The investing activities in FYE 2008 related to the purchase of leaseholds and computer hardware in the amount of $151,450, additions to patents in the amount of $123,282 and the cash cost associated with the purchase of the DDP Molecules in the amount of $737,153. Investments in computer hardware and patents will continue as the Company relies extensively

on state of the art PC computing power to run its profiling processes and the patent costs are an important part of the intellectual property protection on its molecules. Further leasehold costs are anticipated in FYE 2009 as the Company increases its staffing and provides the necessary office furniture and equipment support within its current office space.

The increased cash at FYE 2008, as highlighted in Table 8, was due primarily to funds generated by the issuance of common shares and warrants. These funds came from two sources as follows:

1. On November 29, 2007, the Company completed a brokered private placement of 2,857,143 common shares offered to accredited investors in Ontario at $1.40 per common share for gross proceeds of $4,000,000. The Company retained Northern Securities Inc. to act as agent for the private placement. Total costs of the placement were $334,118 including the agent's fee of $280,000. The common shares issued under the offering were subject to a four month hold from the date of closing the private placement until the close of business on March 29, 2008.

2. During the year ended April 30, 2008, 3,769,773 warrants were exercised as set out in Table 9 and common shares issued for gross proceeds of $2,387,305. The costs incurred to issue these shares and any associated warrants were $13,099.

Table 9: Summary of Warrant Exercises

Warrant Description	April 30 2007	Warrants Exercised	Warrants Expired	April 30 2008
$0.40 warrants	533,332	533,332	-	-
$0.40 agent warrants	378,930	305,125	-	73,805
$0.60 warrants	1,000,000	-	-	1,000,000
$0.70 warrants	3,545,950	2,931,316	516,410	98,224
	5,458,212	3,769,773	516,410	1,172,029

Warrant exercises from the end of FYE 2008 to July 21, 2008, generated $626,950 in gross proceeds on issuance of 1,041,125 common shares. This has raised the Company's cash, cash equivalents and short term investments to approximately $6.4 million as at July 21, 2008.

At July 21, 2008 outstanding warrants, if exercised prior to expiry, could lead to the issuance of 130,902 additional common shares with gross proceeds of $71,327.

The Company's working capital at FYE 2008 was $5,591,142 compared to $2,212,903 at FYE 2007. Current assets increased to $6,380,528 at FYE 2008 from $2,522,551 at FYE 2007 for an increase of $3,857,977, primarily due to the increased cash, cash equivalents and short term investments. Current liabilities increased $451,420 to $789,386 at FYE 2008 from $337,966 at FYE 2007. This increase reflects a $313,709 increase in amounts due to shareholders primarily resulting from the $370,000 note taken back on the DDP purchase by Whippoorwill Holdings Limited and a $137,931 increase in accounts payable.

The Company's long term contractual obligations are summarized in Table 10.

Table 10: Contractual Obligations
for the years ended April 30

Obligation	Total	2009	2010	2011
Capital lease	$ 21,287	$ 20,024	$ 1,263	$ -
Premises rent [(1)]	40,495	37,380	3,115	-
Total contractual obligations	$ 61,782	$ 57,404	$ 4,378	$ -

(1) At FYE 2008 the Company was assessed additional property taxes of approximately $20k for prior years which it intends to contest. This would have a potential increase in rent expense of $9k and $800 for 2009 and 2010 respectively.

In addition to the contractual obligations noted above, the Company has a note payable due on July 31, 2008, with a net balance including interest due on that date of approximately $355,000.

Based upon its current cash, cash equivalents and short term investments, management believes it has sufficient cash resources to carry out its operations for the next 24 months at planned 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.

Off Balance Sheet Arrangements

The Company has not historically or currently utilized off-balance sheet transactions.

Related Party Transactions

The related party transactions of a material amount which occurred during FYE 2008 are set out in Table 11 below. All transactions were incurred and recorded at the exchange amounts agreed to by the parties.

As highlighted in notes 9 and 10 of the FYE 2008 financial statements, there were interest bearing notes owing to certain shareholders of $49,063 and $353,247 and to a related party of $20,000. All interest accrued up to the end of FYE 2007 was paid on these notes during 2008 and the notes were maintained on a current basis throughout FYE 2008.

Table 11: Related Party Transactions

Name	Relationship	Business Purpose	Amount
Whippoorwill Holdings Limited [1]	Shareholder[3]	Computer lease payments as per lease agreement entered into Oct 1/05. Lease expires March 1/09. The lease is carried as a capital lease obligation on the balance sheet of COTI.	$ 18,480
		Interest bearing notes due on demand repaid in March 2008.	31,500
		Demand note with interest at 5% due on July 31, 2008 issued to the Company on purchase of DDP.	370,000
		Interest paid during the year on interest bearing notes	11,777
		Legal fees paid on behalf of Whippoorwill Holdings Limited at closing of DDP purchase	18,113
Dean Gendron [2]	Shareholder, Officer, Director (3)	Monthly consulting contract fees paid for role in assisting with investor relations and molecule marketing.	$ 10,000

[1] Wholly owned company of COTI's CEO, Mr. John Drake.

[2] The consulting contract with Mr. Gendron terminated on June 30, 2007.

[3] None of the shareholders/officers/directors or related parties noted above are paid employees of the Company.

Future Outlook

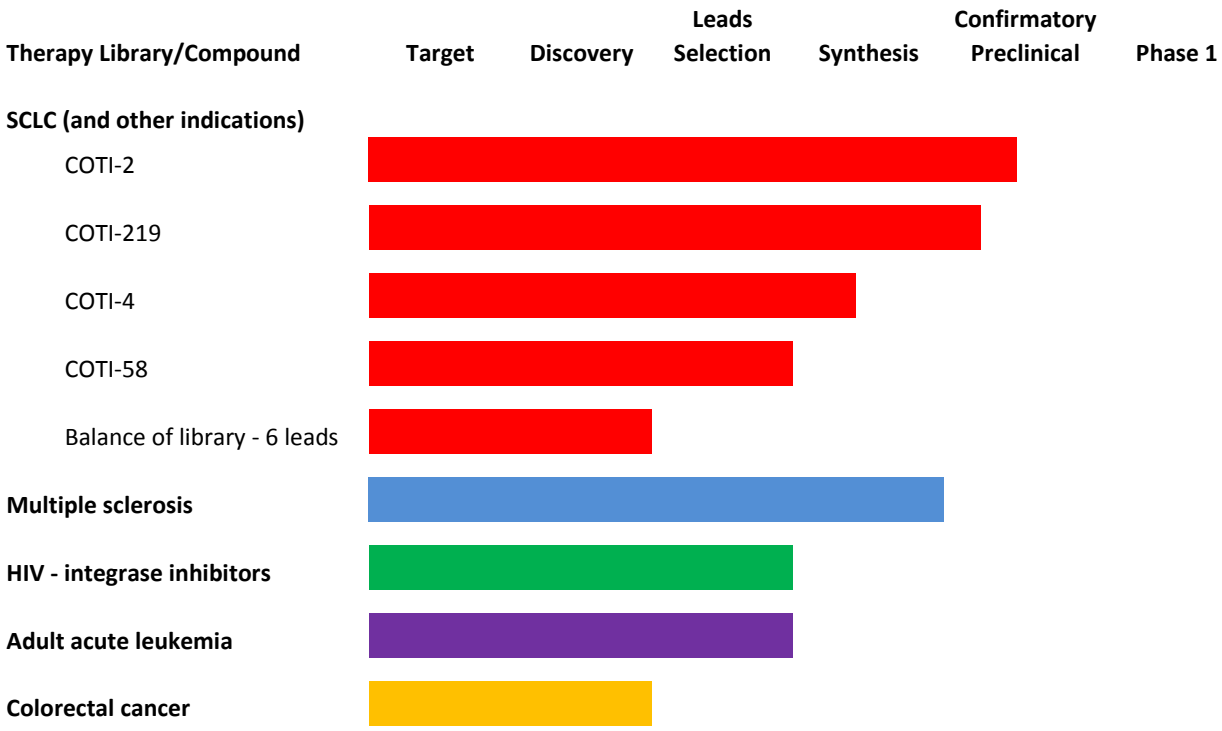
During FYE 2008, the Company made significant progress in developing its molecule libraries as illustrated in Figure 1, particularly the Molecules acquired from DDP including; COTI-2, COTI-4, COTI-58 and COTI-219.

Over the course of the last year the Company announced positive preclinical experiment results for COTI-2 including:

- A novel and potentially first-in-class mechanism of action (MOA). Experiments conducted in triplicate have confirmed that COTI-2 has an effect on caspase-9 activation through inhibition of Akt/PKB. The resulting activation of caspase 9 leads to apoptosis or programmed cell death in cancer cells.
- *In vitro* activity at very low nanomolar dose levels in 4 aggressive human brain cancer cell lines.
- Low acute toxicity in escalating dose testing according to standard test protocols. Examination of tissues and organs from treated animals demonstrated no drug induced abnormalities.
- Positive results for *in vitro* metabolic stability in a human liver microsomal enzyme system with effective drug retention.

The performance of COTI-2 in preclinical testing was predicted by CHEMSAS® and provides validation for the Company's drug discovery technology.

Figure 1: COTI Product Development Pipeline at July 15, 2008



During 2008, COTI engaged decision makers from several major pharmaceutical organizations for presentation of its data on COTI-2, including its novel and potentially first-in-class MOA and to explore licensing opportunities regarding its ongoing development. The Company will continue to evaluate options pertaining to a licensing arrangement for COTI-2 in 2009, as further test results enhance the opportunity for developing the compound to drug status.

In April 2008, the Company commenced MOA experiments pertaining to COTI-219 to add to its existing data package for this molecule which currently includes multiple experiments for efficacy in vivo and in vitro as well as resistance and toxicity testing. These will continue in 2009 as the Company moves this molecule forward for licensing.

A derivative of the original COTI-4 scaffold was profiled during 2008 to improve the patentability of the molecule, and synthesis commenced in late fiscal 2008. Once completed in first quarter 2009, this molecule will move through confirmatory testing during the balance of the year.

COTI-58 has recently completed optimization and will enter synthesis during second quarter 2009 with confirmatory experiments to follow.

During FYE 2008 COTI encountered a delay in the development of its Multiple Sclerosis (MS) program in the form of a potential intellectual property overlap with another organization. Management is currently evaluating its options as it relates to advancing this program, which may include an in-licensing strategy or commencing development of a new series of molecules.

Throughout 2008 COTI held discussions with several firms regarding potential collaborations involving HIV Integrase Inhibitor compounds which are undergoing final patentability evaluation prior to synthesis. Integrase inhibitors are targeted to interfere with the integrase enzyme system which is responsible for combining the viral DNA with human DNA.

The Adult Acute Leukemia (AAL) project continues to progress with notice of its second European patent grant in December 2007, thus providing patents on three compounds as tyrosine kinase inhibitors. Tyrosine kinase mutations have been identified as common factors in many cancers and may specifically promote uncontrolled white blood cell proliferation common in leukemias.

Apart from marketing drug candidates discovered by CHEMSAS® for the purpose of licensing, the Company also engaged in discussions with several pharmaceutical, biopharmaceutical and biotechnology organizations related to leveraging CHEMSAS® to identify lead candidates for targets of existing commercial interest to these prospective partners. These lead discovery collaborations can provide a steady stream of revenue and provide stability as the Company concurrently develops its own novel drug candidates identified by CHEMSAS®. The Company's strategy incorporates an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical test results and royalties. Management expects this to be an effective approach for enhancing value to the Company and its shareholders.

This lead discovery collaboration strategy is similar in design to the Company's pilot project agreement with Merck Serono, which was announced on October 17, 2007. After the project officially commenced on February 5, 2008, the Company successfully completed the initial phase of the project. Future revenues from this project will be earned and invoiced based upon achievement of individual milestones in the preclinical development of the drug candidates discovered by COTI.

Changes in Accounting Policies including Initial Adoption

Adopted in 2008

The Canadian Institute of Chartered Accountants issued four new standards in its Handbook (HB) that became effective for the Company for its FYE 2008. The impact of these accounting policies on the Company's current business was not material. These policies are described below.

(a) Section 1530 Comprehensive Income

This accounting standard specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in the Company's shareholder equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains or losses on available for sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings be presented in other comprehensive income until such items are realized.

This standard also requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity.

The Company does not have any available for sale investments, derivative instruments or self sustaining foreign operations and, accordingly, the Company had no comprehensive income or loss to report.

(b) Section 3251 Equity

Section 3251 establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. Were the Company to have had any comprehensive income or loss it would have added a consolidated statement of comprehensive income or loss to these financial statements and made the corresponding changes to shareholders' equity.

(c) Section 3855 Financial Instruments – Recognition and Measurement

This standard sets out criteria for the recognition and measurement of financial instruments. The standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statement of operations or accumulated other comprehensive income, depending on the classification of the related instruments. All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if the requirements had always been in effect. Changes to the fair value of assets and liabilities prior to adoption are recognized by adjusting opening deficit or opening "other accumulated comprehensive income".

All financial instruments are classified into one of the following five categories: held for trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of

financial instruments depends on their initial classification as follows: (1) held for trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings in the period in which they arise; (2) held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost and amortization of premiums or discounts and losses due to impairment are included in current period net earnings; (3) available for sale financial assets are measured at fair value and changes in fair value are included in "other comprehensive income" until the gain or loss is recognized in income; (4) all derivative financial instruments are measured at fair value, even when they are part of a hedging relationship and changes in fair value are included in net earnings in the period in which they arise, except for hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized as other comprehensive income.

In accordance with this new standard, the Company has classified its cash, and cash equivalents as held for trading and short term investments as held to maturity. Miscellaneous receivables are classified as loans and receivables. Accounts payable and accrued liabilities, due to shareholders and notes payable were classified as other financial liabilities. The Company currently does not have embedded derivatives or hedge transactions.

(d) Section 3861 Financial Instruments Disclosure and Presentation

This section establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives, including disclosures of associated risks relating to financial instruments. This standard was implemented during the period with immaterial impact on the measurement of cash equivalents held for trading.

To be Adopted in 2009

The Canadian Institute of Chartered Accountants issued three new standards in its HB that will become effective for the Company for its FYE 2009. The impact of these accounting policies on the Company's current business is not anticipated to be material. These policies are described below.

a) Section 1535 Capital Disclosures

This standard requires disclosure of an entity's objectives, policies and processes for managing capital. What the Company regards as capital must be quantified. The Company must also disclose whether it has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

b) Section 3862 Financial Instruments – Disclosures

HB 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how these risks are managed. Increased disclosure is required around liquidity, currency and other price risks. Net income sensitivity is required for

changes in market risk factors not just interest rates as in HB 3861 the predecessor section. Other specific disclosures not previously required to be disclosed include; movements into or out of a fair value classification, details of collateral pledged or collateral held, reconciliation of changes in financial asset allowance accounts for credit losses, multiple embedded derivatives in compound financial instruments and details of debt defaults.

c) Section 3863 Financial Instruments – Presentation

This standard carries forward unchanged, the presentation standards previously embodied in HB 3861, the predecessor section adopted in 2008.

Outstanding Share Data

Outstanding share information as at the close of business July 21, 2008 is set out in Table 12.

Table 12: Outstanding Share Data

		Outstanding	Expiry Date
Common shares			
Authorized - unlimited			
Issued		46,696,534	
Fully diluted [(1)]		48,628,114	
Weighted average outstanding [(2)]		42,132,640	
Common share warrants			
$0.40 agent warrants		67,680	Oct 12/08
$0.70 warrants		63,222	April 12/08 to Dec 31/09
		130,902	
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
	$2.00	100,000	Oct 8/12
	$0.75	335,678	June 9/13
		1,800,678	

(1) Assumes conversion of all outstanding stock options and share purchase warrants.

(2) Weighted average shares outstanding calculated from May 1, 2007 to July 21, 2008.