(Amended)

Management Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended April 30, 2010

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Management Discussion and Analysis

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, 2010, and has been prepared with all information available up to and including July 14, 2010. 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, 2010. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") unless specifically identified otherwise; however, the information as presented herein represents unaudited disclosure. 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. Management of COTI considers the assumptions on which these forward-looking statements are based to be reasonable, but because 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 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, on October 13, 2006 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 TSXV under the symbol COT on October 30, 2006.

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 3015402 Ontario Inc. (formerly 6441513 Canada Inc.) operating as DDP Therapeutics (DDP), in which the Company had, up to the date of the acquisition, a 10% ownership interest. DDP was formed in early 2006 to develop a library of small cell lung cancer molecules discovered by the Company using its drug discovery technology.

On May 1, 2008, the Company amalgamated with this wholly owned subsidiary under the laws of the Province of Ontario.

Our Business

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

Using CHEMSAS®, the Company is developing focused portfolios of novel, proprietary and optimized small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality rates and currently have either poor or no effective therapies. Following synthesis and completion of a core group of confirmatory in vitro and in vivo tests, the Company plans to license or co-develop these molecules with interested biotech or pharmaceutical partners for further drug development and human trials. Currently, libraries in various stages of development include: acute myelogenous leukemia and other cancers, HIV integrase inhibitors, multiple sclerosis and secretase inhibitors for the treatment of Alzheimer's disease.

In addition to licensing its targeted portfolios, the Company may also take particularly promising individual molecules forward through various preclinical tests to Phase 1 clinical trials. This activity involves additional preclinical testing and the costs associated with making an investigational new drug application (IND filing) in the United States or a new drug submission (NDS) in Canada and a plan for human Phase 1 clinical studies. These compounds would then be available for licensing or co-development with a partner as Phase 1 ready compounds. In this regard, COTI continues to prepare for a Phase 1 clinical trial submission based on the positive preclinical results achieved from COTI-2, its lead cancer molecule, against a number of cancer indications. Testing initiatives and planning for this event currently target an IND filing in calendar 2011.

The Company also seeks to leverage CHEMSAS® in identifying lead candidates for targets of commercial interest to pharmaceutical and biotechnology organizations on a collaborative basis. The Company's preferred commercialization strategy for collaborations involves an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results. This service offering provides prospective customers with an efficient and effective approach for generating discovery stage compounds while enhancing value to COTI and its shareholders from the underlying CHEMSAS® technology. To date, COTI has engaged in two collaborations with multinational pharmaceutical companies with one currently ongoing.

Overall Performance and Selected Annual Information

Operationally, the Company made significant progress in the development of its lead oncology compound, COTI-2, during fiscal 2010. This progress indicated that COTI-2 had efficacy against multiple cancers, low toxicity and performed well in head-to-head comparisons as a single agent with the common therapies used to treat the particular cancers tested. Table 1 sets out a summary of the cancers, cell lines and comparative therapy tested against or in combination with COTI-2 as announced during fiscal 2010. In addition, the Company conducted tests

indicating the ability of COTI-2 to target AKT/AKT2 in susceptible cancer cells making it a valuable commercial asset with a broad potential market for two important reasons:

1. Abnormal expression or activation of AKT/AKT2 is commonly found in a range of 20%-100% of tumors depending upon the type of human cancer (including non-small cell and small cell lung, colorectal, ovarian, endometrial, brain, leukemia, pancreatic and breast).

2. The abnormal expression or activation of AKT/AKT2 has been associated with the emergence of resistance to many standard chemotherapeutic agents in many human cancers, therefore COTI-2 may be a valuable addition in a combination therapy with many standard agents.

Table 1: Scientific Announcements

	Announcement Date	Cancer Type	Cell Lines	Common Therapy
1	May 14/09	Endometrial	AN3CA	Paclitaxel
2	Jun 29/09	Colon	HCT-15, HCT-116, HT-29, COLO-205, and SW620	Tarceva or Erbitux
3	Jun 29/09	Non small cell lung	H292 and H1975	Tarceva
4	Jul 2/09	Ovarian	A2780	Doxil (Doxorubicin Hcl)
5	Dec 9/09	Pancreas	PANC-1	Gemcitabine
6	Jan 20/10	Pancreas	PANC-1	Abraxane
7	Mar 30/10	Breast	Triple Negative Breast Cancer-MDA-MB-231-luc	None

This test data in conjunction with the entire scientific data package has garnered increasing interest in potential licensing discussions. While the Company was not able to achieve a licensing agreement for COTI-2 in fiscal 2010 it remains a strong focus for potential revenue in fiscal 2011.

The other area of major development towards a revenue event in fiscal 2010 was the collaboration project for HIV-1 integrase with a major pharmaceutical company (the Collaborator). The synthesis was completed during the year and three compounds were shipped to our Collaborator in March and April 2010. In vitro testing to be conducted by the Collaborator is expected to occur in the May to August 2010 timeframe. Upon finalization of the experimental data and review with COTI, the Collaborator has an opportunity to license the compounds for further development.

In addition to these two major projects, information surrounding other compound development is set out in the Outlook and Product Development Progress section of this MD&A.

Despite the progress in development of our compounds, there were no revenues generated in fiscal 2010. Table 2 provides selected financial information from the financial statements of the Company for the current and prior two fiscal years.

Revenues generated in fiscal 2009 and 2008 came from contract collaboration services. Under the HIV integrase collaboration in effect during fiscal 2010, the Company had a synthesis cost sharing arrangement wherein it received $35,000 USD from the Collaborator that was recorded as a reduction in synthesis expense reported in R&D expense by the Company.

The increased loss before other income in FYE 2009 and FYE 2010 compared to FYE 2008 reflects the Company's increased activity and expenditures in developing its technology and bringing its molecules forward to commercialization. As noted above, the Company continued its commercialization efforts during FYE 2010 with a particular focus on COTI-2, the Company's lead cancer compound, but made a strategic decision to reduce spending on research and development (R&D) activities in Q3 2010 to conserve cash until other funds became available. Accordingly, the Company's reported loss for the year declined from FYE 2009.

Table 2: Selected Financial Information

	FYE 2008	FYE 2009	FYE 2010
Revenue	$ 30,822	$ 49,158	$ -
Loss before other income	(2,129,650)	(4,095,362)	(3,715,290)
Other income	227,278	176,343	154,980
Loss and comprehensive loss	(1,902,372)	(3,919,019)	(3,560,310)
Basic and diluted loss per common share	$ (0.05)	$ (0.08)	$ (0.08)
Dividends declared and paid	-	-	-
Total assets	9,696,761	6,917,125	4,835,094
Long term liabilities	$ 1,263	$ -	$ -

Other income was earned from two sources; first, the cash recovery of refundable investment tax credits (ITC) from eligible expenditures and second, interest income on the Company's cash and short-term investment balances. ITC revenue sources include the Ontario Innovation Tax Credit (OITC) program and the Ontario Business Research Institute (OBRI) tax credit program. The Company expects that a significant amount of its spending related to synthesis, in vitro testing and in vivo testing will continue to qualify for ITCs under these programs in the near future. Interest income fluctuations reflect the year over year decrease in cash and short-term investment balances and the lower rates of interest available on these instruments during the respective years.

The Company's total assets declined $2,082,031 from FYE 2009 to FYE 2010. The majority of this decline is seen in the Company's balance of cash, cash equivalents and short-term investments that totaled $1,945,376 at FYE 2010 compared to $3,652,459 at FYE 2009. This decline of $1,707,083 reflects the use of cash to fund Company operations during FYE 2010. The

remaining decline in assets from the prior year is due to amortization taken on intangible assets and equipment with partial offset from increases in intangible assets, primarily patents.

Annual Results of Operations

For FYE 2010, the Company reported a net loss of $3,560,310 or $0.08 per common share compared to a net loss of $3,919,019 or $0.08 per common share for FYE 2009. This decreased loss of $358,709 resulted primarily from the decreased level of R&D testing activity, offset by higher salary costs. The decreased level of R&D testing activity related to a strategic decision to reduce the Company's cash usage and thereby lengthen the Company's timeline for operating while seeking additional financing. The increase in salary costs reflected a full year of consistent staffing levels compared to FYE 2009 when three new hires were made during the year.

Revenues

No operating revenues were recorded in FYE 2010 compared to $49,158 in FYE 2009. Revenue in FYE 2009 came from the Company's initial collaboration agreement signed in FYE 2008 that terminated in August 2009 as the collaboration partner chose to develop an internal candidate for the cancer target. The Company continued to pursue a licensing transaction for its lead preclinical oncology compound, COTI-2, during the year and while no agreements have been reached, many interested parties have been identified and discussions are progressing.

ITC income of $136,786 was generated in FYE 2010, based upon eligible expenditures, compared to $52,055 in FYE 2009. Under the Company's accounting policy, it only records ITC revenue when received due to the contingent nature of these credits that require review and approval by the tax authorities, which occurs well after the Company's year-end. The estimated cash refund for FYE 2010 that was not recognized by the Company in its financial statements in accordance with its accounting policy was $123,033.

The Company earned $18,194 in interest income on its cash, cash equivalents and short-term investments in FYE 2010 compared to $124,288 in FYE 2009. This decrease of $106,094 reflects the impact of lower interest rates available in the market on short-term high quality investments during FYE 2010 compared to FYE 2009 and the lower average balances (FYE 2010 - $2,798,918; FYE 2009 - $4,933,084) held by the Company.

Operating Expenses

The Company changed its financial reporting approach for income statement presentation in Q2 2010 from a nature of expense or transactional approach to an operational or functional approach. This change was implemented to harmonize external financial reporting with the internal financial reporting utilized by management and to render the Company's financial results more comparable to the financial reporting presentation used by other biotechnology companies. A reconciliation of the nature of expense approach to the functional approach for the comparative figures of FYE 2009 as previously reported appears in Table 3.

Table 3: Reconciliation of operating expense presentation from the nature of expense approach to the functional approach for the year ended April 30, 2009

	Functional Expense and Required Disclosure Categories							
Nature of Expense Categories	Research and product development	General and administration	Stock-based compensation	Amortization	Sales and Marketing	Foreign exchange loss	Interest and bank charges	Nature of expense reporting totals
Research and product development	$ 1,093,796	$ -	$ -	$ -	$ -	$ -	$ -	$1,093,796
Salaries and benefits	355,980	367,047	-	-	134,995	-	-	858,022
Stock-based compensation	-	-	842,202	-	-	-	-	842,202
Amortization	-	-	-	490,292	-	-	-	490,292
Professional fees	-	316,071	-	-	31,846	-	-	347,917
Marketing	3,077	57,677	-	-	130,661	-	-	191,415
Corporate Governance	-	156,400	-	-	-	-	-	156,400
General and administration	5,699	117,256	-	-	5,900	-	-	128,855
Loss on disposal of patents	-	24,735	-	-	-	-	-	24,735
Interest and bank charges	-	-	-	-	-	-	10,807	10,807
Loss on disposal of equipment	-	79	-	-	-	-	-	79
Foreign exchange loss	-	(6,674)	-	-	-	6,674	-	-
Totals	$ 1,458,552	$ 1,032,591	$ 842,202	$ 490,292	$ 303,402	$ 6,674	$ 10,807	$4,144,520

Operating expenses decreased from $4,144,520 for FYE 2009 to $3,715,290 for FYE 2010, a decrease of $429,230. Three major expense items, as set out in Table 4, accounted for $399,121 of this change or 93.0 % of the total decrease.

Table 4: Major Expense Items

Expense	FYE 2010	FYE 2009	Change	Change as % of Total
General and administration	$ 1,246,482	$ 1,032,591	$ 213,891	-49.8%
Research and product development	1,117,010	1,458,552	(341,542)	79.6%
Stock-based compensation	570,732	842,202	(271,470)	63.2%
	2,934,224	3,333,345	(399,121)	93.0%
Other expenses	781,066	811,175	(30,109)	7.0%
Total	$ 3,715,290	$ 4,144,520	$ (429,230)	100.0%

The increase in general and administration expense of $213,891 at FYE 2010 compared to FYE 2009 relates primarily to a full year of salary for the Chief Executive Officer and the Controller who were hired in FYE 2009. There were no administrative personnel additions in FYE 2010. Table 5 sets out the salaries and benefits for the current and prior year and the change year over year.

Table 5: Change in Salaries and Benefits

	FYE 2010	FYE 2009	Change
General and administration	$ 554,319	$ 367,047	$ 187,272
Research and product development	434,545	355,980	78,565
Sales and marketing	148,821	134,995	13,826
Total	$ 1,137,685	$ 858,022	$ 279,663

Table 6 provides a breakdown of R&D costs for FYE 2010 and FYE 2009 by major R&D expense type. Overall R&D decreased $341,542 in FYE 2010 compared to FYE 2009.

Contract testing, consulting and materials decreased $285,690. Consistent with FYE 2009, the majority of this cost focused on COTI-2, the Company's lead cancer compound, with spending on COTI-2 of $277,745 or 81.87% in FYE 2010 and $375,151 or 60.03% in FYE 2009.

Synthesis costs decreased $152,973 in FYE 2010. In FYE 2009, $386,284 or 82.4% of synthesis expenditures were for COTI-2, compared to $66,617 or 21.1% in FYE 2010. This decline in FYE 2010 reflected that sufficient manufacturing scale-up production occurred in FYE 2009 to meet the needs of tests completed in FYE 2010. The majority of synthesis cost expenditures in FYE 2010 focused on the Company's collaboration arrangements, representing $249,271 or 78.9% of the total cost of synthesis.

R&D labour costs increased in FYE 2010 with a full year of costs for a project manager and a senior scientist hired in this area during FYE 2009. There were no R&D personnel additions in FYE 2010.

Table 6: R&D Costs

	FYE 2010	FYE 2009	Change
Contract testing, consulting and materials	$ 339,245	$ 624,935	$ (285,690)
Synthesis	315,888	468,861	(152,973)
	655,133	1,093,796	(438,663)
Labour including benefits	434,545	355,980	78,565
Other	27,332	8,776	18,556
Total	$ 1,117,010	$ 1,458,552	$ (341,542)

Stock-based compensation decreased by $271,470 in FYE 2010 despite the granting of a comparable number of stock options (FYE 2010 - 1,341,255, FYE 2009 - 1,358,067). The decrease in the valuation of stock-based compensation results from the lower values of the assumptions used in the Black-Scholes option-pricing model and the amortization of compensation cost for option issuances that vest over a period of time. Table 7 summarizes the Black-Scholes assumption estimates used in FYE 2010 and FYE 2009.

Table 7: Black-Scholes Assumption Estimates and Related Stock-based Compensation

	FYE 2010	FYE 2009
Risk free interest rate	1.5% - 2.8%	2.2% - 4.0%
Expected dividend yield	-	-
Expected share volatility	110% - 149%	115% - 210%
Expected average option life	2 - 5 years	5 years
Total stock option compensation	$ 503,849	$ 1,019,479

Two Year Operational Results Summary by Quarter

Table 8 summarizes the operating results by quarter for the past two fiscal years.

Table 8: Two-Year Summary of Quarterly Results

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ -	$ -	$ -	$ -
Loss before other income	(986,899)	(1,119,391)	(775,963)	(833,037)	(3,715,290)
Other income	7,810	142,713	2,746	1,711	154,980
Loss	(979,089)	(976,678)	(773,217)	(831,326)	(3,560,310)
Loss per common share	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.08)

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	$ -	$ 5,982	$ 13,204	$ 29,972	$ 49,158
Loss before other income	(898,304)	(759,908)	(1,036,831)	(1,400,319)	(4,095,362)
Other income	39,533	34,906	38,530	63,374	176,343
Loss	(858,771)	(725,002)	(998,301)	(1,336,945)	(3,919,019)
Loss per common share	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.08)

The decreasing quarterly loss trend that occurred in the last two quarters of FYE 2010 reflects the Company's decision to reduce R&D and discretionary spending in moderating the Company's use of cash. The majority of the variation by quarter across the years, and year over year, is explained by a few expense categories as set out in Table 9.

Table 9: Select Quarterly Expense Categories

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 329,616	$ 317,811	$ 286,793	$ 312,262	$ 1,246,482
Research and product development	425,860	292,037	233,476	165,637	1,117,010
Stock-based compensation	33,602	309,992	52,895	174,243	570,732
Total of expense categories	$ 789,078	$ 919,840	$ 573,164	$ 652,142	$ 2,934,224
Total expense for the quarter	$ 986,899	$ 1,119,391	$ 775,963	$ 833,037	$ 3,715,290
Expense categories as a % of total expense	80.0%	82.2%	73.9%	78.3%	79.0%

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
General and administration	$ 258,814	$ 194,314	$ 283,366	$ 296,097	$ 1,032,591
Research and product development	201,895	348,786	485,113	422,758	1,458,552
Stock-based compensation	232,621	24,056	86,922	498,603	842,202
Total of expense categories	$ 693,330	$ 567,156	$ 855,401	$ 1,217,458	$ 3,333,345
Total expense for the quarter	$ 898,304	$ 765,890	$ 1,050,035	$ 1,430,291	$ 4,144,520
Expense categories as a % of total expense	77.2%	74.1%	81.5%	85.1%	80.4%

As noted in the Annual Results of Operations Review, the variability in the quarterly trend for stock-based compensation reflects a number of factors; first, the quantity and use of stock options in compensating various parties such as the Board, employees and consultants; second,

the timing of option grants; third, the vesting terms assigned to options; and finally, the impact of the Black-Scholes model assumptions on the option fair value over the quarters.

Analysis of Fourth Quarter 2010

For the three month period ended April 30, 2010 (Q4 2010), the net loss amounted to $831,326 or $0.02 per share compared to a net loss of $1,336,945 or $0.03 per share for the three month period ended April 30, 2009 (Q4 2009) as set out in Table 10. No revenues were generated in Q4 2010 compared to $29,972 in revenue generated in Q4 2009 under the terms of a collaboration agreement. The decreased loss of $505,619 relates primarily to significant year over year quarterly changes occurring in R&D and stock-based compensation.

Table 10: Statements of Comprehensive Loss
For the three months ended April 30

		Q4 2010	Q4 2009	Change
Revenue		$ -	$ 29,972	$ (29,972)
Expenses:	General and administration	312,262	296,097	(16,165)
	Research and product development	165,637	422,758	257,121
	Stock-based compensation	174,243	498,603	324,360
	Amortization	118,832	120,617	1,785
	Sales and marketing	53,997	87,840	33,843
	Foreign exchange loss	6,936	2,648	(4,288)
	Interest and bank charges	1,130	1,728	598
Loss before other income		(833,037)	(1,400,319)	567,282
Other income		1,711	63,374	(61,663)
Loss and comprehensive loss		$ (831,326)	$ (1,336,945)	$ 505,619
Basic and diluted loss per common share		$ (0.02)	$ (0.03)	
Weighted average number of common shares outstanding		46,822,623	46,720,214	

Research and product development costs decreased $257,121 in Q4 2010 compared to Q4 2009 as management reduced its spending while focusing on raising additional capital for the COTI-2 R&D program. R&D testing, synthesis and material costs were nominal in Q4 2010 at $34,442, compared to $312,511 in Q4 2009. Part of the decrease in R&D costs in Q4 2010 can also be attributed to the recovery of $28,027 in synthesis costs under the Company's collaboration agreement for HIV integrase compounds announced in FYE 2009.

Stock-based compensation decreased by $324,360 as 246,808 fully vested options with a Black-Scholes value of $103,659 were granted to employees in Q4 2010 compared to a grant of 422,389 fully vested stock options with a Black-Scholes value of $415,208 as Board compensation in Q4 2009. The grant of stock options to employees was made in lieu of cash based salary compensation as there were no cash based salary increases provided to any employee during fiscal 2010.

Liquidity and Capital Resources

At FYE 2010, the Company had cash and cash equivalents of $1,945,376 compared to $3,652,459 for cash, cash equivalents and short term investments at FYE 2009 reflecting a decrease of $1,707,083 as summarized in Table 11.

Table 11: Summary of Capital Resources [(1)]

	FYE 2010	FYE 2009	Change
Increase (decrease) from:			
Operating activities	$ (2,365,805)	$ (2,532,078)	$ 166,272
Investing activities excluding changes in short-term investments	(233,392)	(291,006)	57,614
Financing activities before issuance of common shares and warrants	(102,443)	(370,115)	267,672
Increase (decrease) in capital resources before issuance of common shares and warrants	(2,701,640)	(3,193,199)	491,560
Proceeds from issuance of common shares and warrants	999,075	633,936	365,139
Increase (decrease) increase in capital resources	(1,702,565)	(2,559,263)	856,699
Less: unrealized foreign exchange loss on capital resources	4,518	1,987	2,531
Capital resources - beginning of year	3,652,459	6,213,709	(2,561,250)
Capital resources - end of year	$ 1,945,376	$ 3,652,459	$(1,707,083)

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

The presentation of capital resources is not consistent with GAAP wherein cashflows relate to changes in cash and cash equivalents. Cash equivalents are those investments with maturities of 90 days or less from the date of acquisition.

The investing activities in FYE 2010 primarily related to the purchase of computer software for $72,064 and additions to patents for $152,578. Investments in computer software and patents will continue as the Company relies extensively on computing technology to run its profiling processes. Patent costs represent an investment in intellectual property protection for the Company's molecules and an important element to creating value for each compound being developed by the Company.

The financing activities reflect the final payment of capital lease obligations of $1,263 and the repayment of shareholders' advances and notes payable totaling $101,180.

The decreased cash position at FYE 2010, highlighted in Table 11, was due primarily to cash utilized to fund Company operations throughout the year, offset by the issuance of common shares and warrants in April 2010. The issuance of common shares and warrants resulted from a non-brokered private placement of 3,038,141 common shares to accredited investors, directors and employees for net proceeds of $999,075. The net proceeds will be used to fund internal R&D activities and for general working capital requirements.

No warrants or options were exercised in FYE 2010 compared to warrant exercises contributing net proceeds of $633,936 in FYE 2009. However, during FYE 2010 16,902 warrants expired unexercised. Under the April 2010 private placement, 1,519,070 common share purchase warrants were issued with an exercise price of $0.55 as well as 105,607 agent warrants with an exercise price of $0.40. These warrants may contribute to future funding if the Company's trading price on the TSX Venture Exchange exceeds the exercise price of the warrants within 18 months of the date of closing which would be October 27, 2011.

Subsequent to FYE 2010, on May 28, 2010, the Company completed a second and final tranche to its private placement initiative started in late March 2010. This final tranche raised net proceeds of approximately $34,552 that resulted in the issuance of 112,860 common shares, 56,430 common share warrants and 693 agent warrants at the same exercise prices as the first tranche in April 2010 and exercisable up until November 27, 2011.

Also subsequent to the year end, on June 16, 2010, the Company received notice of a non-repayable financial contribution of up to $300,000 for the development of its Acute Myelogenous Leukemia program under the National Research Council of Canada Industrial Research Assistance Program. This funding represents 31.5% of the total estimated project cost of $955,470 and is effective for a 16-month period commencing July 1, 2010. The funding has been apportioned over the term of the project with maximum grants of $168,750 in the government's March 31, 2011 fiscal year and $131,250 in fiscal 2012.

The Company's working capital at FYE 2010 was $1,705,078 compared to $3,367,742 at FYE 2009. Current assets decreased to $2,050,087 at FYE 2010 from $3,804,279 at FYE 2009 for a decrease of $1,754,192, primarily due to the decrease in cash, cash equivalents and short-term investments. Current liabilities decreased $91,528 to $345,009 at FYE 2010 from $436,537 at FYE 2009 because of demands for repayment of shareholder advances and notes payable.

The Company's long-term contractual obligations are summarized in Table 12. The Company has sufficient working capital to meet its contractual obligations.

Table 12: Contractual Obligations
For the years ended April 30

Obligation	Total	2011	2012
Premises rent [(1)]	$ 9,345	$ 9,345	$ -
Research and development contracts	238,547	238,547	-
Consulting services	48,950	48,950	-
Total contractual obligations	$ 296,842	$ 296,842	$ -

[(1)] During fiscal 2009 the Company was assessed additional property taxes of $6,400, which the Company is contesting. The premises lease agreement expired on May 31, 2009 and has been extended on a month to month basis with a 90 day notice period exercisable by either the lessor or lessee.

Based upon the balance of cash and cash equivalents at the year-end, the Company has sufficient cash resources to carry out its operations for FYE 2011 at planned operating levels.

Off-Balance Sheet Arrangements

The Company has not historically utilized, nor is it currently utilizing any off-balance sheet instruments.

Foreign Exchange Exposure

The Company uses contract research organizations (CRO) under its business model to conduct the synthesis and confirmatory testing of the compounds discovered using its CHEMSAS®

technology. These third parties are not necessarily located in Canada. As a result, there is exposure to foreign exchange gains or losses in settling these transactions. In addition, collaboration projects can result in payments to COTI denominated in a foreign currency. This foreign exchange exposure has been in USD and EURO for the most recent fiscal year completed and in prior fiscal years.

In managing this exposure during these years, the Company chose not to convert foreign currency received under collaborations to Canadian dollars but rather to hold the currency and use these funds to provide the currency necessary for USD or Euro denominated payments. The basis for this decision was that foreign currency payments were anticipated to exceed the foreign currency receipts and any short-term fluctuations in the underlying currencies held would not result in any significant gains or losses from holding the foreign currency. During FYE 2010, the Company recorded a foreign exchange loss of $14,949 compared to a loss of $6,674 in FYE 2009. The loss recorded in FYE 2010 reflects $8,705 in unrealized losses resulting from holding foreign currency balances at the year end.

The Company continues to monitor its foreign exchange transactions recognizing that licensing revenues and CRO costs could represent significant foreign currency exposure in the future.

Related Party Transactions

The related party transactions of a material amount that occurred during FYE 2010 are set out in Table 13 below. All transactions were incurred and recorded at the exchange amounts agreed to by the parties.

Table 13: Related Party Transactions

Name	Relationship	Nature of transaction	Amount FYE 2010	Amount FYE 2009
Various	Directors and officers	Gross proceeds raised on 616,001 units sold to directors and officers in the April 2010 private placement	$ 215,600	$ -
K. Ferguson	Director	Repayment of shareholder advances and notes payable	62,849	-
		Interest paid on interest bearing notes	2,312	2,192
G. Kelly	Officer	Repayment of notes payable	17,633	-
		Interest paid on interest bearing notes	1,299	1,231
Whippoorwill Holdings Limited	Shareholder [(1)]	Repayment of demand note	-	351,886
		Interest paid on interest bearing notes	-	5,830
		Computer lease payments on lease which expired April 30/09	$ -	$ 16,941

[(1)] Wholly owned company of Mr. J. Drake, a Director and Shareholder.

Outstanding Share Information

Outstanding share information as at the close of business July 14, 2010 is set out in Table 14.

Table 14: Outstanding Share Information

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	49,871,215	
Fully diluted [(1)]	54,736,329	
Weighted average outstanding [(2)]	47,271,106	
Common share warrants		
$0.40 agent warrants	105,607	Oct 27/11
$0.40 agent warrants	643	Nov 27/11
$0.55 warrants	1,519,070	Oct 27/11
$0.55 warrants	56,430	Nov 27/11
	1,681,750	
Common share stock options		
$0.01 - $0.50	1,083,847	Oct 30/13 - Mar 14/15
$0.51 - $1.00	1,749,517	Jan 11/12 - Mar 14/15
$1.01 - $1.50	250,000	Mar 25/12 - Jul 15/13
$1.51 - $2.00	100,000	Oct 8/12
	3,183,364	

[(1)] Assumes conversion of all outstanding common share stock options and warrants.

[(2)] Weighted average shares outstanding calculated from May 1, 2009 to July 14, 2010.

Outlook and Product Development Progress

Financial Outlook Fiscal 2011

Revenue Prospects

The R&D development on COTI-2 during FYE 2010 that included identification of multiple cancer targets and combination therapies has increased licensing interest in the compound. Additional development of COTI-2 in FYE 2011 that builds on its existing strengths as a licensing target will enhance the opportunity to achieve a licensing deal in FYE 2011.

On the HIV-1 Integrase Collaboration project, the Collaborator is managing, conducting and funding agreed upon preliminary preclinical experiments as part of their evaluation of these compounds delivered late in Q4 2010. These experiments are expected to take up to five months to complete from the date of compound delivery. Once the final experiments have been completed and the results have been received by COTI, the Collaborator will have an exclusive period to negotiate a licensing agreement with COTI for the select compounds. If an agreement is not reached within this period, COTI will be able to engage other potential licensing partners for this HIV-1 integrase inhibitor program.

The Company has a number of valuable drug compounds and programs, which because of limited near term financial resources, must be put on hold for further development. These include: oncology compounds COTI-4, COTI-219 and the colorectal cancer portfolio; the multiple sclerosis program and the Alzheimer's Disease project. The Company is exploring a variety of ways to realize value on these compounds or further their development through co-development projects.

The Company also expects to continue receiving refundable ITCs for eligible expenditures under the OITC and OBRI programs for its FYE 2010 expenditures and for future years. The estimated refundable ITC related to fiscal 2010 expected in fiscal 2011 is approximately $123,000

Building on the lead discovery collaboration strategy implemented to date in pilot project agreements, the Company continues to carry out a targeted business development campaign to global pharmaceutical and biotechnology organizations in order to market the benefits of working with COTI on lead discovery collaborations. Discussions with prospective customers are on-going.

Expenditures

The Company intends to increase contract research and product development spending in FYE 2011 once sufficient financing is obtained. The focus will be on completing the pharmacokinetic and toxicology (PK-Tox) IND studies for COTI-2 in support of an IND filing with the United States Food and Drug Administration. This is an important initiative in supporting licensing discussions for COTI-2 and continuing to build value in this compound.

The Company also intends to proceed with the next phase of the HIV Collaboration project that consists of optimizing a small series of potential candidates based on these scaffolds once financing is obtained.

Subsequent to FYE 2010, the Company received approval of its IRAP proposal that will provide $300,000 in funding towards the development of these compounds. This project is estimated to take 13-16 months from commencement with a total estimated cost of $955,470. The project will include the synthesis of finalized lead candidates based upon the scaffolds patented, confirmatory in vitro and in vivo testing efficacy and toxicity testing of the computational predicted profile, mechanism of action studies and preformulation work on the optimal final formulation with contractors. The Company will be proceeding with the contractor portion of the project as financial resources become available.

The extent of spending on general and administrative activities in FYE 2011 is expected to fall within the range of spending that occurred in FYE 2009 and FYE 2010. While no additional employees were hired in FYE 2010, the Company foresees the need to increase staffing in the business development area to support new revenue initiatives when this becomes appropriate.

Investments in computer software and patents will continue as the Company relies extensively on computing technology to run its profiling processes.

Subsequent to FYE 2010, the Company was advised of the resignation of its Chief Executive Officer effective June 30, 2010. Under the terms of COTI's Stock Option Plan, unvested options expire upon the termination of employment. There were 300,000 options granted on November 1, 2008 upon the appointment of the CEO, which remained unvested and expired on June 30, 2010. In accordance with GAAP, $110,509 of stock-based compensation expensed in prior periods related to these options will be reversed through a reduction in stock based compensation in fiscal 2011.

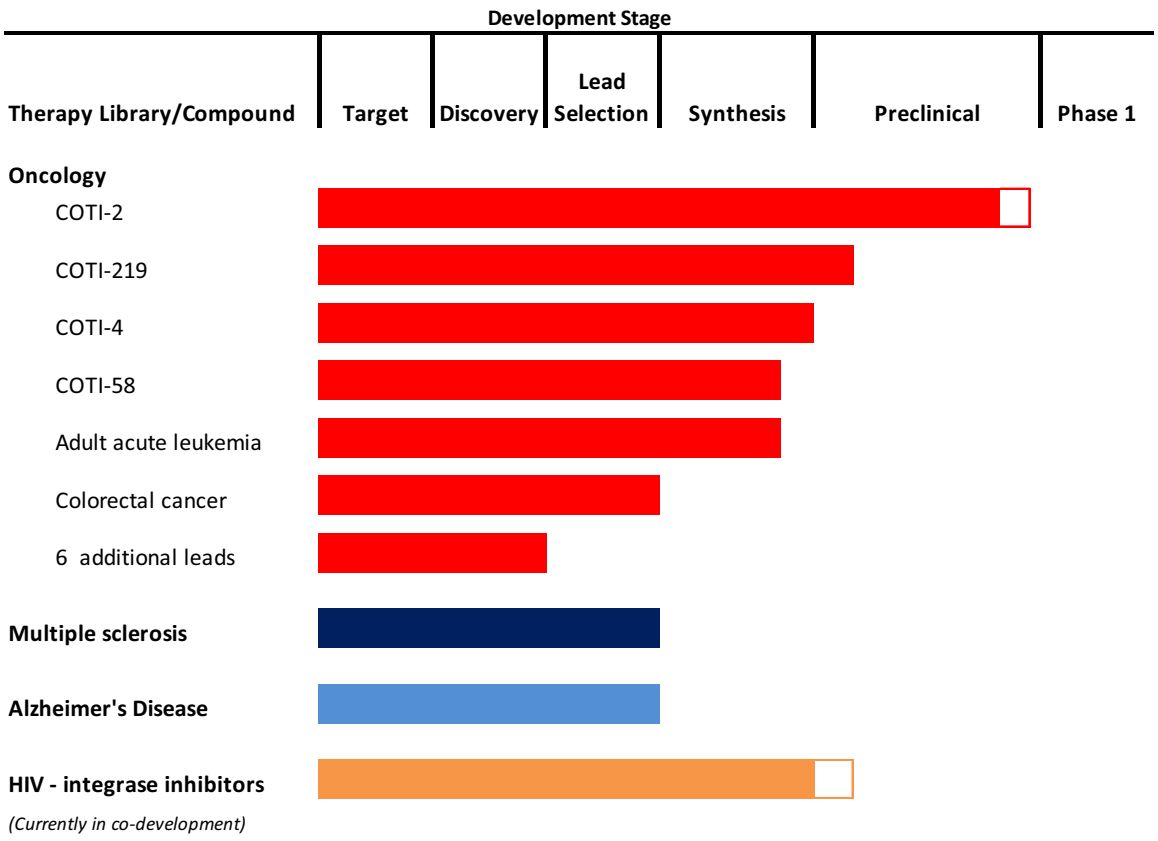
Liquidity and Capital Resources

The Company at the date of this MD&A has insufficient cash resources under current spending plans to sustain operations for all of fiscal 2012, which commences on May 1, 2011. Given this relatively short horizon beyond fiscal 2011, the Company continues to look for different sources of financing and cash flows from revenue initiatives to extend and expand its operations.

Product Development Progress – Q4 2010

The Company continued to make progress in developing its drug candidate pipeline during FYE 2010. Figure 1 highlights the development status of specific compounds and libraries to the date of this report. A clear box indicates the progress made in the fourth quarter for a particular library or compound.

Figure 1: COTI Product Development Pipeline at July 14, 2010



COTI-2

During Q4 2010, Company representatives continued discussions with multiple pharmaceutical organizations regarding a prospective licensing agreement for COTI-2. Concurrently, the Company continued its investment in this promising molecule by carrying out additional experiments and laboratory work to determine an optimal intravenous formulation.

In addition to the formulation work, the Company announced on March 30, 2010 positive test results from a series of animal experiments carried out using COTI-2 as a single agent against an aggressive strain of triple negative human breast cancer (TNBC). The significance of this development is that TNBC is a difficult to treat cancer subtype that does not have an approved standard of care, nor does it respond to existing hormone based and targeted therapies.

Subsequent to FYE 2010, the Company issued a press release on May 11, 2010 announcing a favourable Pre-Investigational New Drug (pre-IND) gap analysis report on the COTI-2 data package. This thorough analysis of the preclinical data package by an independent team of scientific and regulatory consultants revealed no deficiencies in the COTI-2 program. This represents an important milestone as the Company is now positioned to commence PK-Tox studies as part of the investigational new drug submission necessary to proceed to a Phase 1 clinical trial.

COTI-219

There was no further development of this oncology compound during Q4 2010 as resources, both time and money, were focused on other initiatives.

COTI-4

There was no further development of this oncology compound during Q4 2010 as resources, both time and money, were focused on other initiatives.

Acute Myelogenous Leukemia (AML)

In September and December 2009, the Company received United States patent approval for all three compounds and actively continued to seek a licensing or co-development partner for these compounds. During Q3 2010, the Company completed a final proposal for financing support to develop these compounds with the National Research Council Industrial Research Assistance Program (IRAP).

Colorectal Cancer

There was no further development of this library during Q4 2010 as resources, both time and money, were focused on other initiatives. The Company does not anticipate taking these compounds forward in FYE 2011 unless a partner can be found.

Multiple Sclerosis

Management continues to delay its decision regarding the further advancement of this program until a patent review opinion from the US Patent and Trademark Office (USPTO) related to a potentially competing patent claim is rendered. Multiple Sclerosis continues to be an important project for the Company and the program is likely to proceed when the intellectual property approach is clearly defined in relation to this potentially competing claim and the Company has the necessary financing to proceed.

Alzheimer's Disease

In Q1 2010, COTI announced it had launched a program to develop a novel approach for the discovery of potentially effective oral treatments for Alzheimer's Disease (AD) using its proprietary drug discovery technology CHEMSAS®. The COTI scientific team focused their research efforts on the area of secretases, a class of enzymes that cut the amyloid precursor protein into three fragments. Sequential cutting by beta secretase and gamma secretase produces the beta amyloid peptide fragments that accumulate into the "plaques" or scars found in the brains of people with AD. The COTI scientific team believes that the development of inhibitors that target both beta and gamma secretase represents a valid, novel research and therapeutic approach.

This library consists of six dual secretase inhibitors on three different scaffolds that are ready for synthesis and preclinical evaluation. There was no further development of this library during Q4 2010 as resources, both time and money, were focused on other initiatives.

Collaborations and Co-Development Projects

(i) HIV-1 Integrase Co-development

Work on synthesizing three HIV-1 integrase inhibitor compounds under a co-development agreement with a major pharmaceutical company was completed in Q4 2010 with the compounds being delivered in March and April 2010.

Subsequent to FYE 2010, the Company issued a press release on May 20, 2010, announcing positive test results from preliminary preclinical experiments it executed on the synthesized HIV-1 integrase inhibitor compounds, demonstrating good inhibitory activity of HIV-1 integrase in an assay at nano-molar concentrations. The significance of these results is that the majority of currently marketed HIV-1 integrase inhibitors have a very similar way of interacting with and inhibiting the enzyme through a diketo acid type moiety. COTI's compounds interact in a different manner and based on these results, COTI has filed a composition of matter patent on its novel compounds and their mechanism of action.

Industry and Economic Factors Affecting Performance

The biotechnology industry is generally regarded as high risk given the uncertain nature of developing drug candidates and this is particularly true in Canada. On the other hand, success in this industry can be highly rewarding. COTI operates in the discovery and preclinical stage of the drug development cycle. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecules discovered using the Company's drug discovery technology either for its own account or in collaboration agreements for others, and in utilizing the technology to provide profiling and screening services on a fee for service basis. The major industry and economic risk factors affecting realization of this potential in fiscal 2010 are highlighted below.

(i) Economic Recovery and Financial Markets

During FYE 2010, the pharmaceutical industry's appetite for preclinical licensing deals, which had virtually disappeared with the economic downturn of 2007-2009 throughout North America and the rest of the world, showed some signs of improvement. This increased interest coincided with improvements in the financial markets and improving market sentiment. While financial markets remained volatile and the recovery remained fragile, there was a recovery of financial markets from the lows of March 2009 that has resulted in improved conditions for financing possibilities. The fragility of this financial market recovery is highlighted by the sovereign debt issues being experienced in Europe with Greece and other countries as well as the impact of the British Petroleum oil leak in the Gulf of Mexico. These two issues will continue to have some impact on economic recovery in the European market, which is expected to lag the rest of the world in economic growth and recovery during the next year or two. This may have some impact to COTI in its licensing and collaboration discussions, as there are a

number of major Pharma companies located in Europe with whom COTI has had and continues to have such discussions.

With the upturn in the market, COTI was able to obtain gross proceeds on an April-May private placement financing of $1,102,850. Again, the fragility of the recovery was highlighted by an approximate 5% drop in the TSX composite index from the time of closing the Company's first tranche on the private placement on April 28, 2010 to the final closing on May 28, 2010.

It was within this early economic market turnaround that COTI was working to obtain both financing and a licensing deal for its preclinical stage lead compound COTI-2.

(ii) Dependence on Third Party Clinical Research Organizations

COTI depends on independent preclinical investigators, contract research organizations (CRO) and other third party service providers to conduct preclinical trials for its drugs. It expects to continue to do so in the future. The Company relies heavily on these parties for successful execution of preclinical trials, but does not control many aspects of their activities, as the investigators are not its employees. These third parties may not complete activities on schedule, or may not conduct the testing in accordance with protocols or regulatory requirements. However, COTI bears responsibility for ensuring that its preclinical experiments are conducted in accordance with the quoted investigational plan and protocols of the tests and on schedule. Management of CROs was a major factor in the Company's performance in FYE 2010 as COTI utilized various third party providers for synthesis and other testing development. Company expenditures with CROs totaled $655,133 (see Table 6) or 59.2% of R&D costs (75% - FYE 2009). The significance of CRO involvement in the Company's R&D is also evident from the significant time spent planning and negotiating the pre-IND testing contract for COTI-2 with a major American CRO which has an estimated cost of $1.2M USD.

(iii) Dependence on Key Personnel

The Company depends on certain members of its management and scientific staff and the loss of services of one or more could adversely affect operations. The Company's ability to manage development of its compounds effectively will require it to continue to implement and improve its management systems and to recruit and train new employees for growing the business as finances allow.

The Company did not provide salary increases during calendar 2009 or fiscal 2010. The Company utilized a stock option grant to employees in February 2010 to compensate them for their services and efforts. The options were issued at an exercise price of $0.47. While the Company believes it provides competitive salaries in its geographic location, there can be no assurance that the Company will be able to retain these skilled and experienced personnel. If employee turnover is significant, it may be extremely difficult to maintain efficiency and effectiveness in all operational areas. In this regard, subsequent to the year end, the Company's CEO resigned to pursue a career in philanthropy, as the President & CEO of the Canadian Diabetes Association. The Company's President and CSO (who is also the company founder) was appointed CEO. An evaluation is underway of optimal staffing and required skill sets for new hires, once financing and business activity determines this to be appropriate.

(iv) Financing Requirements and Access to Capital

As highlighted under Liquidity and Capital Resources, the Company needs to seek additional funds in FYE 2011 to continue development of its discovery programs more rapidly in FYE 2011 and 2012.

The Company will seek to raise additional funds for these purposes through a number of sources, which could include any or a combination of: a prospectus offering, a private placement with accredited investors, licensing of COTI-2 or other pipeline assets, collaborations with other biopharmaceutical companies, co-development of pipeline assets and government financing.

There can be no assurance that additional funding will be available on terms acceptable to the Company. COTI's future capital requirements will depend on many factors that may include the following:

1. establishing and maintaining collaborative partnering relationships;
2. continued scientific progress in our research, drug discovery and developmental programs;
3. the financial commitments necessary for our development programs and progress with preclinical or clinical programs;
4. time and costs involved in obtaining regulatory approvals;
5. competing technological and market developments, including the introduction by others of new therapies in our markets; and
6. the general economic conditions and availability of capital in the equity markets for biotechnology companies.

(v) Additional Major Risks and Uncertainties

In addition to the economic challenges described above, the Company could also face ongoing uncertainties in FYE 2011 and 2012 related to risks for which it has limited ability to influence, foresee, manage or change including:

1. rapid technological change;
2. potential clinical and product liability;
3. changes in healthcare reimbursement and funding mechanisms;
4. delay or abandonment of the commercialization of drugs under development;
5. government regulations and drug approval;
6. competition – technological and therapeutic;
7. dependence on collaborative partners, licensors and others;
8. patents and proprietary technology; and
9. volatility of share price.

Changes in Accounting Policies including Initial Adoption

(i) Adopted in 2010

During the year ended April 30, 2010, the Company adopted the new accounting standards issued by the CICA described below. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

a) Goodwill and intangible assets:

In February 2008, the Accounting Standards Board ("AcSB") issued Section 3064, "Goodwill and Intangible Assets", which replaced two sections: Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This Section became effective for the Company with interim and annual financial statement reporting beginning on May 1, 2009. This Section established standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The adoption of this standard has resulted in the reclassification of computer software as an intangible asset, but has had no effect on the recognition and measurement of the Company's other intangible assets (molecules, patents and trademark) nor has it had any effect on the reported net loss and deficit.

b) General standards of financial statement presentation:

In January 2008, Section 1400, "General Standards of Financial Statement Presentation" was amended to require disclosure of material uncertainties that cast significant doubt as to an entity's ability to continue as a going concern. This Section became effective for the Company with interim and annual financial statement reporting beginning on May 1, 2009. This new standard has resulted in the Company increasing its disclosure related to material uncertainties that cast doubt as to its ability to continue as a going concern.

c) Financial Instruments – Disclosures:

In June 2009, Section 3862, "Financial Instruments - Disclosures" was amended to include additional disclosure requirements about fair value measurements and to enhance liquidity risk disclosure requirements. This Section became effective for the Company with annual financial statement reporting ending after September 30, 2009. The amendments to this standard require that an entity establish a fair value hierarchy that is based on the source of data used to determine the fair value of financial instruments as outlined below:

- Level 1: Fair value measurements are based on quoted prices in active markets
- Level 2: Fair value measurements are based on inputs other than quoted market prices which are either directly or indirectly observable by the Company
- Level 3: Fair value measurements are based on inputs that are not based on observable market data

The adoption of this standard has had limited effect on the financial statements other than increased note disclosure. In the first year of application, the standard does not require comparative information for the disclosures required by these amendments.

d) Credit risk and the fair value of financial assets and financial liabilities

In January 2009, EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was issued. This section required that the Company's own credit risk and the credit risk of its counterparties be considered when assessing the fair value of financial assets and financial liabilities. Given the nature of the Company's financial instruments carried at fair value, this standard has resulted in no changes to the manner in which such financial instruments are measured since credit risk is limited.

(ii) To be Adopted in 2011

The Canadian Institute of Chartered Accountants issued new accounting standards that will apply to the Company for its FYE 2011 and beyond. These standards are described below.

a) International financial reporting standards (IFRS):

Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparative financial statements for the prior fiscal year. IFRS uses a conceptual framework similar to Canadian GAAP (CGAAP), but there can be significant differences in recognition, measurement and disclosure. For COTI, the change to reporting financial results under IFRS will be required for the interim and annual financial statement reporting periods of its fiscal year ending April 30, 2012. However, in order to provide comparative data for this reporting period the Company will need to capture its financial results under IFRS commencing with its April 30, 2011 year-end. To accomplish this, the Company will effectively prepare off-line financial statement reconciliations under IFRS concurrently with its CGAAP financial statements during FYE 2011.

A formal IFRS transition group has been established in the Company that includes representation from the Board of Directors, senior management and external advisors. Selected members of the Audit Committee of the Board provide governance oversight and receive regular progress reports on the advancement of the conversion to IFRS. Finance staff are executing the IFRS transition plan and implementing the findings into the financial reporting process. The Company's auditors, KPMG LLP, have been engaged to provide technical accounting advice on the interpretation and application of IFRS for the implementation decisions made by management.

In order to prepare for the transition and gain the financial reporting expertise necessary to implement IFRS, the Company's finance staff and members of the Audit Committee have engaged in activities designed to increase their knowledge of IFRS. Training has been accomplished through formal course attendance, informal instruction and self-study.

The Company's IFRS transition plan encompassed three phases at inception. These phases and their status are outlined below.

- Diagnostic – this phase involved the preparation of a high-level diagnostic analysis of the key financial statement items expected to be impacted upon transition to

IFRS. As part of this process, the Company identified key data requirements and process modifications that would be required before transition occurred. The Company completed the diagnostic phase of its IFRS transition plan in FYE 2009.

- Development – this phase involves a more detailed analysis of the impact of IFRS on key financial statement items and focuses on implementation differences and issue resolution. During this stage of the transition process, management will finalize financial statement component evaluations (CEs) and make decisions on accounting policy options. The development phase will conclude with the preparation of a model set of financial statements prepared in accordance with IFRS.

- Implementation – this phase involves the execution of changes to financial reporting and business processes that will enable the Company to compile financial statements that are compliant with IFRS. Accounting policies compliant with IFRS will be approved and entrenched in the financial reporting system.

The development phase commenced in FYE 2010 and detailed CEs for each accounting standard are nearing completion. The Company estimates that at April 30, 2010 it has completed draft CEs for 96% of the accounting standards applicable to the Company. The Company expects to finalize all of the CEs by the end of Q2 2011. The process of drafting model financial statements compliant with IFRS has commenced and completion is anticipated to coincide with the finalization of the CEs. The implementation phase of the transition plan is expected to commence in FYE 2011 thereby enabling the Company to prepare comparative results once it adopts IFRS in FYE 2012.

The anticipated implications upon transition to IFRS based on the accounting standards currently in force for the one CE finalized at April 30, 2010 are outlined in Table 15. The operational implications of these policy choices are limited as the Company is not subject to debt covenant restrictions and does not have any externally imposed capital requirements.

Taxation impacts are expected to be limited as the Company does not currently generate taxable income nor does it recognize any of its net deferred tax assets under CGAAP.

Table 15: Implications of Component Evaluation for Equipment

Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Significant disclosure implications	IT and data system implications	Internal control system implications
Equipment	Equipment will be measured using a cost model rather than a revaluation model based on fair value.	The Company will not elect to apply the fair value or revaluation as the deemed cost upon transition using the exemption provision for this.	No adjustments to the opening balance sheet are anticipated as equipment is carried at cost under CGAAP.	A detailed reconciliation of opening and closing cost and accumulated amortization will be included in the financial statements.	Limited changes to accounting processes and applications are necessary.	No changes to existing internal control systems are necessary.
	Equipment additions will be componentized in situations where individual elements are sufficiently dissimilar to warrant separate measurement.		No adjustments to the opening balance sheet are anticipated as a result of componentization.			

Of the CEs that are in draft form, those set out in Table 16 below are expected to have the most significant impact on the financial statements upon transition.

Table 16: Summary of Expected Significant IFRS Components

Component evaluation	Accounting policy alternatives and/or changes	IFRS 1 implications	Anticipated impact on the opening balance sheet	Anticipated date for the finalization of the CE
Impairment	IFRS requires that impairment testing be based on the "individual asset" or a "cash generating unit" basis. Under CGAAP, the Company assesses impairment on an individual asset basis. IFRS measures the recoverable amount using the higher of the "fair value less costs to sell" and the asset's "value in use", which is estimated using a discounted cash flow analysis. CGAAP measures fair value using a recoverable amount which is estimated using an undiscounted cash flow analysis.	No exemptions exist under IFRS 1.	The Company regularly reviews its assets for indications of impairment. Given current circumstances, no impairment adjustments are anticipated upon transition.	Q1 F'11
Stock-based compensation	IFRS requires the use of a graded method for computing stock-based compensation and requires that estimates of forfeitures be incorporated into initial calculations of compensation cost. Under CGAAP, the Company uses the straight-line method in calculating compensation cost and assumes that all units will vest, only adjusting for forfeitures when they occur.	Upon transition, the Company can elect not to apply IFRS restrospectively to stock-based payment transactions which have vested before transition to IFRS. It is anticipated that the Company will make this election.	The Company is reviewing the historical accounting treatment of its stock options that are expected to vest after transition to IFRS. The quantitative impact of adjustments (if any) has not been finalized at this time as the CE is undergoing review by the Company's auditors.	Q1 F'11
Business combinations	The methods of accounting for business combinations differ under IFRS from the methods followed under CGAAP.	Upon transition, the Company can elect not to apply IFRS restrospectively to past business combinations. The Company is currently evaluating whether or not it will apply this exemption.	The Company is reviewing the historical accounting treatment of its business combination transactions. No adjustments to the financial statements are anticipated upon transition.	Q1 F'11
Foreign currency translation	The functional and presentation currency of the Company may change before transition to IFRS if a significant revenue or other event occurs prior to transition.	No exemptions exist under IFRS 1 that have applicability for the Company.	Quantitative impact of a change in functional currency cannot be determined at this time.	Q2 F'11

The IFRS areas determined to be applicable to COTI and the Company's assessment that no material differences currently exist for the Company between IFRS and CGAAP are set out in Table 17 below.

Table 17: Summary Assessment of Other IFRS Components

Component evaluation	Rationale supporting management's assessment that IFRS will have limited impact
Intangible assets	The methods of accounting for intangible assets under IFRS are relatively consistent with that required under CGAAP. The Compacy anticipates that it will continue to measure intangible assets at cost rather than a revaluation model based on fair value.
Financial instruments	The Company has no complex financial instruments. It does not have any derivative instruments nor does it engage in hedging activities.
Leases	There are currently no capital lease arrangements in place.
Employee benefits	The Company does not have any pension plans or other forms of complex compensation arrangements.
Related party transactions	The Company does not typically engage in any material related party transactions, however more extensive disclosure is anticipated for compensation paid to key management.
Government assistance	The methods of accounting for Government assistance under IFRS are relatively consistent with that required under CGAAP.
Revenue recogntion	The Company has recognized a limited number of revenue transactions to date. The methods of accounting for existing revenue streams are relatively consistent with that required under CGAAP.
Income taxes	The Company does not generate taxable income and the criteria for recognition of the net deferred tax asset has not been met under CGAAP or IFRS.
Segment reporting	The Company operates in one reportable segment based on the economic characteristics of its research and its services.
Subsequent events	The treatment of subsequent events under IFRS is relatively consistent with that required under CGAAP.
Earnings per share	The calculations of earnings per share under IFRS are relatively consistent with that required under CGAAP due to the simple share structure of the Company.
Accounting policies, changes in estimates and errors	The treatment of accounting policies, changes in estimates and errors under IFRS are relatively consistent with that required under CGAAP.
Provisions and contingencies	The criteria for recognition of provisions under IFRS is slightly different than recognizing contingencies under CGAAP, however the difference is not expected to result in additional recognition of liabilities upon transition.

Changes are anticipated to be made to the presentation of the income statement, balance sheet and statement of cash flows upon transition; however, these changes are not expected to be

substantial or materially affect the structure of the financial statements. At present, the Company believes the greatest impact of the first time adoption of IFRS will be in the nature and extent of financial statement note disclosure that is expected to increase significantly. There are some subtle differences in the requirements for preparing interim financial statements under IFRS and CGAAP that will also need to be implemented by the Company.

The Company is actively monitoring the activities of the AcSB and the International Accounting Standards Board (IASB) for any new accounting standards they might issue leading up to the conversion. The Company will modify its project plan to incorporate new accounting requirements as they are issued. The anticipated impacts of projects being deliberated by the IASB, which may have a significant impact on the Company, are as follows:

- Financial instruments: The IASB is working on replacing International Accounting Standard (IAS) 39 in its entirety. The issuance of IFRS 9 in November 2009 was the first step in this process, addressing the classification and measurement of financial assets. Some sources are suggesting that IFRS 9 may undergo further changes before the date it becomes effective on January 1, 2013. Other financial instrument topics under review that are expected to affect financial instruments in the future are as follows: derecognition, fair value measurement guidance, impairment, measurement of financial liabilities, and financial instruments with characteristics of equity.

- Provisions and contingencies: The IASB is working on replacing IAS 37 with a new IFRS expected to be released in 2010 to address non-financial liabilities. Notable items that the IASB is considering include the removal of the probability recognition criterion for recognition of contingencies and updating guidance on liability identification and measurement.

- Income taxes: This standard was scheduled to be replaced with a new standard in 2010 that was expected to result in substantive accounting changes. An exposure draft of the revised IAS 12 was issued in March 2009 but in October 2009, the IASB reached a conclusion that it is unlikely that the income tax project will proceed in its current form. It is expected that the IASB will issue either further amendments to the existing IAS 12 or issue a new IFRS altogether in 2011.

- Revenue recognition: The IASB is working on replacing IAS 18 and IAS 11 in 2011. Proposals include the creation of a single revenue recognition model that can be applied consistently across a range of industries and the elimination of existing inconsistencies in current revenue recognition concepts and standards.

- Financial statement presentation: The IASB is in on-going deliberations with the U.S. Financial Accounting Standards Board about overhauling IAS 1 and IAS 37 in their entirety by 2011. Proposals include strengthening the relationship between items across the financial statements, the disaggregation of information so that users can more readily predict future cash flows, and the provision of information to assist in the assessment of liquidity.

b) Business combinations, consolidated financial statements and non-controlling interests:

In December 2008, the AcSB issued Section 1582, "Business Combinations" that replaced Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements" which replaced Section 1600, "Consolidated Financial Statements", and the AcSB amended Section 1602, "Non-controlling interests". These Sections will become effective for the Company with interim and annual financial statement reporting beginning on January 1, 2011. The standards are to be applied prospectively to future business combinations; however, entities transitioning to IFRS may choose to adopt these Sections early to minimize the effect of transitional differences with IFRS. If an entity chooses to adopt Section 1582 before the required transition date, Sections 1601 and 1602 must be applied at the same time. These standards are expected to have no effect on the Company before transition to IFRS as no future business combinations are being considered at present.