Critical Outcome Technologies Inc.

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

As at September 28, 2007

Fiscal 2008 – First Quarter Interim Period ended July 31, 2007

The following discussion and analysis explains trends in Critical Outcome Technologies Inc.'s ("COTI" or the "Company") financial condition and results of operations for the three month period ended July 31, 2007. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This document has been prepared as at September 28, 2007 and should be read in conjunction with the Company's interim financial statements of July 31, 2007 and the annual audited financial statements for the year ended April 30, 2007 and notes thereto which can be found on SEDAR at www.sedar.com. All dollar figures are Canadian dollars.

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

Company Overview

COTI is a reporting issuer 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. ("Old COTI", a private company) under the provisions of the Business Corporations Act (Ontario). The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. ("COTI").

COTI is a drug discovery company founded in 1999 and based in London, Ontario. COTI is formed around a unique computational platform technology called CHEMSAS®. The Company is focused on applying the technology to discover small molecules potentially effective in the treatment of human diseases for which current therapy is either lacking or ineffective. This focus has led to the discovery and pre-clinical development of libraries of optimized lead compounds for the treatment of specific diseases. Currently, five targeted libraries of lead compounds are under development consisting of; small cell lung cancer (through COTI's 10% ownership interest in 6441513 Canada Inc. operating as DDP Therapeutics (DDP), multiple sclerosis, HIV integrase inhibitors, acute myelogenous leukemia in adults, and colorectal cancer.

Results of Operations

For the three month period ended July 31, 2007, the net loss amounted to $500,458 or ($0.01) per share compared to a net loss of $163,088 ($0.01) per share for the corresponding period in 2006.

These results reflect the increased business activity of the Company as it advanced its technology forward in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 which was focused on raising funds through the private placement which closed in October 2006.

Summary of Two Year Quarterly Results

Table 1 below sets out the operating results for the eight most recent quarters of the Company. Revenues are observed to be modest over the period consisting of screening and contract service revenues as the Company focused on developing its molecular libraries. The increasing quarterly loss trend reflects the Company's ramp up of product and business development activities for its molecule libraries as well as administrative costs of the business. Significant non-cash expense related to stock option compensation of $159,909 in Q-1 FYE 2008, $210,764 in Q-4 FYE 2007 and $213,705 in Q-3 FYE 2007 are reflected in the quarterly net losses respectively. Total synthesis costs of $266,389 were incurred during Q-3 of FYE 2007 through Q-1 of FYE 2008 and the Company expects these costs to continue at these levels as additional molecules are moved forward into synthesis or *in vitro* and *in vivo* confirmatory testing.

Table 1: Two Year Quarterly Results Summary

FYE 2008	Q-1 31-Jul	Q-2 31-Oct	Q-3 31-Jan	Q-4 30-Apr	Total
Revenues	$ -				$ -
Total loss before other income	524,674				524,674
Other income	24,216				24,216
Total net loss	$ 500,458				$ 500,458
Net loss per share	$ 0.01				$ 0.01

FYE 2007	Q-1 31-Jul	Q-2 31-Oct	Q-3 31-Jan	Q-4 30-Apr	Total
Revenues	$ 2,500	$ -	$ -	$ -	$ 2,500
Total loss before other income	163,088	178,895	515,696	687,834	1,545,513
Other income	-	77,262	14,391	23,877	115,530
Total net loss	$ 163,088	$ 101,633	$ 501,305	$ 663,957	$ 1,429,983
Net loss per share	$ 0.01	$ -	$ 0.02	$ 0.02	$ 0.05

FYE 2006	Q-1 31-Jul	Q-2 31-Oct	Q-3 31-Jan	Q-4 30-Apr	Total
Revenues	$ -	$ 30,000	$ 2,500	$ -	$ 32,500
Total loss before other income	37,235	56,286	73,437	430,400	597,358
Other income	(220)	220	6,649	(220)	6,429
Total net loss	$ 37,455	$ 56,066	$ 66,788	$ 430,620	$ 590,929
Net loss per share	$ -	$ 0.01	$ 0.01	$ 0.04	$ 0.06

Financial Condition

As at July 31, 2007 the Company had available cash of $2,925,545 compared to $2,417,801 at April 30, 2007. The increase is due primarily to funds generated from the exercise of common share warrants as 1,571,665 warrants were exercised during the quarter for gross proceeds to the Company of $944,824.

The Company's current assets increased to $3,032,550 at July 31, 2007 from $2,522,551 at April 30, 2007. Current liabilities decreased $40,559 to $297,407 at July 31, 2007 from $337,966 at April 30, 2007. This decrease in current liabilities reflects an approximate $27,770 reduction in accounts payable, $7,850 in payment of shareholder note interest and $4,940 in reduction of the capital lease obligation.

Management believes it has sufficient cash resources to carry out its operations for the next 16 months at expected operating levels. However, in light of uncertainties associated with the development of its molecule libraries including identifying and securing suitable pharmaceutical customer prospects, further financing may be required to support the Company's operations in the future.

Operating Revenues

The Company did not generate any operating revenues in the three months ended July 31, 2007 as compared to $2,500 in contract service revenues in the three months ended July 31, 2006. The Company realized $24,216 in other income from interest earned on its excess cash balances in the three months ended July 31, 2007 compared to no other income sources in the comparable period for 2006.

During the three month period ended July 31, 2007, the Company continued to focus on developing its libraries and building customer relationships for the sale or licence of its two lead molecule libraries for; small cell lung cancer (10% ownership interest) and multiple sclerosis. Additional focus was placed on marketing the lead molecule pilot project concept as a means to develop relationships with major pharmaceutical companies.

Operating Expenses

For the three month period ended July 31, 2007 total operating expenses were $524,674, an increase of $359,086 compared with $165,588 in the same period in 2006. The increase in these operating expenses is primarily due to non-cash stock option compensation of $159,909, synthesis costs of $18,889, salaries of $159,123, professional fees of $92,577 and marketing costs of $38,849 as the Company continued to work on its molecule libraries, customer contacts and sales initiatives.

Expenses with an increase greater than $18,000 were as follows:

- Salaries and benefits increased by $79,378 from $79,745 in Q-1 2007 to $159,123 in Q-1 2008. This reflects the increased staffing of 7 full time employees in Q-1 2008 compared to only 3.4 employees at July 31, 2006.

- Stock option compensation increased $159,909 in Q-1 2008 compared to no such expense in Q-1 2007. This reflects the granting of 230,000 stock options in May 2007. None of these options granted to date by the Company were exercised at July 31, 2007.

- Professional fees increased by $55,621 from $36,956 in 2006 to $92,577 in 2007. The increase related to $32,400 in accounting fees for various tax and accounting matters, and $22,390 in legal costs primarily related to the increased corporate governance associated with being a public company and the increased business activity of the Company.

- Synthesis costs increased by $18,889 compared to no such expense in 2006. This expense relates to continuing costs incurred on the first four multiple sclerosis molecules.

- Marketing costs increased by $18,114 from $20,735 in 2006 to $38,849 in 2007. This cost increase was driven primarily by travel costs associated with the marketing of the molecule libraries to interested pharmaceutical parties and in total represented an increase of $13,242 over the costs in the comparable period in 2006.

Income Taxes

The Company is not in a taxable position as it has not generated a profit since inception. The Company has temporary timing differences that could give rise to future tax assets as well as non-capital losses and research and development expenditures which may be applied to reduce taxable income of future years. Details of these balances determined up to April 30, 2007 can be found in Note 11 of the Notes to the Financial Statements for the interim financial statements of July 31, 2007. Management cannot discern when a profit will occur so it is possible that the Company will not realize some of these tax benefits.

Liquidity and Capital Resources at July 31, 2007

Operating Activities

For the three month period ended July 31, 2007 operating activities used $348,916 in cash. This compares with cash generated of $76,425 in the three month period ending July 31, 2006. This increase in cash usage in 2007 is due to the ramp up in operational activity from the earlier comparable period.

Investing Activities

During the quarter the Company invested a further $5,058 in patents compared to $8,950 invested in patents in 2006. The Company also recorded an investment in equipment and leaseholds of $59,945 related to the renovation and expansion of its offices from 800 sq. ft. to 1600 sq. ft.

Financing Activities

For the three month period ended July 31, 2007 the Company generated $926,769 in cash from financing activities compared to a use of $214,516 for the quarter ended July 31, 2006. Net equity financing from common share warrant exercise of $939,559 offset by $7,850 in payments to shareholders of accrued note interest and $4,940 in capital lease obligation repayments accounted for the increase. This compares to no equity financing during the comparable quarter in 2006.

Investment in DDP Therapeutics (DDP) and Proposed Transaction

Ownership of DDP upon formation and at present consists of: COTI 10%, Dr. Wayne Danter, President of COTI, 10%, Whippoorwill Holdings, a wholly owned company of Mr. John Drake, CEO of COTI, 40%, and 40% by 2080084 Ontario Inc., an unrelated third party.

Since the formation of DDP in August 2005, COTI has actively directed the preclinical development of the SCLC project in collaboration with DDP. The SCLC product library consists of 10 novel, optimized compounds on 3 scaffolds. The first three lead compounds have shown promising pre-clinical results. The benefits to COTI and its shareholders of the successful marketing of the SCLC lead compounds include; first, validation of the underlying CHEMSAS® technology, second, a higher profile in the pharmaceutical industry which will improve the capacity to develop important relationships leading to future deals for other COTI libraries and third, an expectation of revenue to COTI.

The Company received a proposal (Proposed Transaction) from DDP shareholders on April 25, 2007 for the purchase by COTI of the 90% share ownership of DDP not currently owned by COTI.

On September 17, 2007 the Company announced the signing of a non-binding letter of intent based upon the Proposed Transaction received from shareholders (Sellers), of 6441513 Canada Inc. operating as DDP Therapeutics (DDP), representing all the outstanding common shares not already owned by Critical Outcome Technologies Inc. (COTI), to acquire all of these outstanding shares (Shares) and certain 5% promissory notes (Notes) owing by DDP to two of the Sellers.

The purchase price for the Shares will be calculated immediately prior to closing based on 90% of the net book value of DDP and using an agreed value for the Molecules of $5,500,000 in the calculation. The estimated share purchase price is $4,270,000. The purchase price for the Notes will be equal to the face value of the Notes in the amount of $740,000 plus accrued interest estimated to be $80,200 to the date of settlement for a total Note purchase price of $820,200.

The consideration is payable $1,000,000 in cash (Cash Consideration) and the balance of the purchase price by the issuance of common shares of COTI (Share Consideration) issued at the same issue price per share as is payable by the purchasers of a private placement (Private Placement) conditional to closing the Proposed Transaction. One-half of the Share Consideration will be issued on closing of the Proposed Transaction (Closing) and the remainder of the Share Consideration will be conditionally allotted and reserved for issuance to the Sellers upon the Molecules achieving the following development milestones (Milestones). One-half of the remaining Share Consideration will be issued on the first to occur of: the issuance by the Federal Food and Drug Administration of the United States (FDA) of notification of acceptance of an investigational new drug (IND) filing in respect of any of the Molecules and receipt of the IND acceptance # document in respect of the Molecule; or the issuance of a final patent in respect of any of the Molecules by European or US patent authorities. The remaining one-half of the remaining Share Consideration will be issued to the Sellers on the first to occur of: the issuance by the FDA of notification of acceptance of an IND filing for any Molecule in respect of which a final patent has been issued in the US or Europe; or the issuance of a final patent in the US or Europe for any Molecule in respect of which the FDA has given notice of acceptance of an IND filing and has issued the IND acceptance number document.

Should the Milestones not be reached by the eighth anniversary of the Closing, COTI has the option to either (i) issue the remaining Share Consideration to the Sellers or (ii) pay the Sellers the amount, if any, by which the fair value of the Molecules exceeds the amount invested in the Molecules by COTI, including the amount of the investment of Share Consideration issued to the Sellers up to that point. The determination of the fair value of the Molecules shall be made by agreement between COTI and the Sellers or, failing such agreement, shall be determined by arbitration with the assistance of an appraiser or valuator on a basis to be described in the definitive documents for the Proposed Transaction. The amount of the investment by COTI in the Molecules shall be verified by COTI'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 COTI, no amount shall be payable to the Sellers.

As at September 27, 2007 COTI has 39,337,444 shares outstanding and the issuance of all Share

Consideration on the Proposed Transaction including those shares issuable upon completion of milestones is estimated to be in the range of 5-6 % of the current shares outstanding and of that, 55.6% is attributable to the related parties referred to above.

The Proposed Transaction is conditional upon, among other things, the completion of a Private Placement financing to raise no less than $5,000,000, the net proceeds of which will be used, first, to the extent of $1,000,000 to fund payment of the Cash Consideration; second, to fund the continued development of the Molecules and any excess to be added to the working capital of COTI and used for its general corporate purposes.

Closing of the Proposed Transaction is targeted for October 31, 2007 subject to approval by COTI's Board of Directors upon completion of the Private Placement and Proposed Transaction as previously described and final acceptance by the TSX Venture Exchange, and any other applicable required approvals.

Outstanding Common Shares

Outstanding share information at the close of business September 27, 2007 is set out in Table 2.

Table 2: Outstanding Share Data
As at September 27, 2007

		Outstanding	Expiry Date
Common shares			
Authorized - unlimited			
Issued		39,337,444	
Fully diluted		44,580,263	
Weighted average outstanding (1)		38,312,251	
Common share purchase warrants			
$0.40 warrants		266,666	April 18/08
$0.40 agent warrants		77,805	Oct 12/08
$0.60 warrants		1,000,000	July 15/08
$0.70 warrants		2,283,348	April 12/08 to Feb14/09
		3,627,819	
Common share options			
	$0.64	1,185,000	Jan 11/12
	$0.70	50,000	Jan 14/12
	$1.34	150,000	Mar 25/12
	$1.00	130,000	April 30/12
	$1.34	100,000	May 10/12
		1,615,000	

(1) Weighted ave shares outstanding calculated from May 1, 2007 to September 27, 2007.

Critical Accounting Policies and Estimates

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

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

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

<u>Stock-based compensation and other stock-based payments</u>

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

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

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

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

For the quarter ended July 31, 2007, total stock-based compensation expense of $208,940 was calculated using the Black Scholes option pricing model of which $138,471 was expensed in the quarter. In addition, $21,438 of stock-based compensation was expensed in the period related to prior period stock option grants. An equivalent amount was credited to contributed surplus.

<u>HB section 1530 Comprehensive Income</u>

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

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

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