Critical Outcome Technologies Inc.

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

Fiscal 2009 – Second Quarter ended October 31, 2008

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the quarter ended October 31, 2008, and has been prepared with all information available up to and including December 15, 2008. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This analysis should be read in conjunction with the Company's interim financial statements of October 31, 2008 and the audited financial statements and notes thereto for the year ended April 30, 2008. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly interim reports, the annual audited financial statements and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A contains certain statements, which constitute "forward-looking statements" within the meaning of the *Securities Act* (Ontario) and applicable securities laws. These forward-looking statements, by their nature, are not guarantees of future performance and are based upon management's current expectations, estimates, projections and assumptions. COTI operates in a highly competitive and regulated environment that involves significant risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. Management of COTI considers the assumptions on which these forward-looking statements are based to be reasonable, but 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 on October 13, 2006 of Aviator Petroleum Corp. (Aviator), a public company listed on the TSX Venture Exchange ("TSXV") under the symbol AVC, and Critical Outcome Technologies Inc., a private company, under the provisions of the Business Corporations Act (Ontario). The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and is listed on the TSX Venture Exchange ("TSXV") under the symbol COT.

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 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.

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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 commercially viable drug candidates at the earliest stage of preclinical drug development and thereby reduce the timeline and cost of getting new drug therapies to market.

In developing its technology, COTI has focused on novel, proprietary, small molecules used to treat cancer, HIV and multiple sclerosis. The focus for cancer has been on those with high morbidity and mortality, which currently have either poor or no effective therapies.

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

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

Apart from marketing drug candidates discovered by CHEMSAS® for the purpose of licensing, the Company is also in discussions with several pharmaceutical, biopharmaceucial and biotechnology organizations related to leveraging CHEMSAS® to identify lead candidates for targets of commercial interest to these prospective partners. Management believes that this collaboration approach could provide revenue and financial stability as the Company concurrently develops its own novel drug candidates. The Company's preferred commercialization strategy in collaborations incorporates an upfront fee and a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical and clinical test results. The management of COTI believes that this service offering

to customers represents an effective approach for enhancing value to the Company and its shareholders.

Amalgamation with DDP Therapeutics

On November 27, 2007, the Company completed an acquisition of all the outstanding common shares in the capital of 6441513 Canada Inc. operating as DDP Therapeutics (DDP) not already owned by the Company and the purchase of two 5% promissory notes owing by DDP to two of the selling shareholders. The purchase was accounted for as a purchase of assets because DDP did not meet the definition of a business under EIC 124 of the CICA Handbook. The assets of DDP were consolidated with COTI for financial reporting purposes commencing in the third quarter of fiscal 2008, which ended on January 31, 2008, including operational results from the date of acquisition as a wholly owned subsidiary.

On May 1, 2008, the Company amalgamated with DDP to eliminate the time and cost of managing two legal entities, and reflect the integration of the acquired molecules into the development plans of the Company. The cost to complete the amalgamation was $4,592.

Results of Operations

For the three month period ended October 31, 2008 (Q2-F'09), the Company reported a net loss of $(725,002) or $(0.02) per common share compared to a net loss of $(519,968) or $(0.01) per common share in Q2-F'08. This increased loss of $205,034 resulted from three main sources; increased research and product development of $267,282, amortization of the SCLC molecules acquired in fiscal 2008 of $97,224, increased salaries and benefits of $33,559 and a reduction in investment tax credit refunds received of $53,077. These changes were offset by a decrease in stock-based compensation of $199,019 and a decrease in professional fees of $29,912.

For the six month period ended October 31, 2008 the Company recorded a net loss of $(1,583,773) or $(0.03) per share compared to a net loss of $(1,020,426) or $(0.03) per share for the six month period ending October 31, 2007. The expenses leading to this increased loss of $563,347 are consistent with the current quarter's pace of spending as research and development costs increased $381,607 and molecule amortization increased $194,446.

Revenues

Operating revenues of $5,982 were recorded from administrative fees for managing the synthesis of molecules of behalf of a third party in Q2-F'09. No revenues were recorded in Q2-F'08.

The Company earned $34,906 in interest income on its cash balances in Q2-F'09 compared to $30,990 in Q2-F'08. The increase reflects the higher cash, cash equivalent and short-term investment balances held by the Company during the current quarter compared to Q2-F'08 as

illustrated in Table 1 offset by lower interest rates available during the current period compared to Q2-F'08.

Table 1: Comparative Summary of Cash, Cash Equivalents and Short-term Investments
as at October 31, 2008 and 2007

	Q2-F'09	Q2-F'08
Cash	$ 134,431	$ 419,994
Cash equivalent	1,457,735	2,516,454
Short-term investments	3,643,607	-
Total	$ 5,235,773	$2,936,448

Operating Expenses

Operating expenses increased from $604,035 for Q2-F'08 to $759,908 for Q2-F'09, an increase of $155,873. Three expense items as set out in Table 2 accounted for this change.

Table 2: Major Expense Items

Expense	Q2-F'09	Q2-F'08	Change	Change as % of Total
Research and product development [(1)]	$ 267,282	$ -	$ 267,282	171.5%
Amortization of molecules	97,224	-	97,224	62.4%
Stock-based compensation	24,056	223,075	(199,019)	-127.7%
	388,562	223,075	165,487	106.2%
Other expenses	371,346	380,960	(9,614)	-6.2%
Total	$ 759,908	$ 604,035	$ 155,873	100.0%

[(1)] Consists of third party contracted testing and synthesis costs.

1. The research and product development expense increase reflects preclinical in vitro and in vivo testing of $225,228, and synthesis costs of $165,149, related to COTI-2, 4 and 219. There were no costs incurred in Q2-F'08 for research and development in the Company as such costs were incurred in a related company, DDP Therapeutics, during that quarter which company was later acquired by COTI as referenced in this and previous MD&As.

2. The amortization of molecules reflects the amortization of the purchase cost of $3,111,169 allocated to the SCLC molecules from the DDP acquisition in Q3-2008.

3. The decreased stock-based compensation in Q2-F'09 reflects a lower level of option grants vesting during Q2-F'09 compared to Q2-F'08. A grant was made to the Chief Executive Officer appointed on October 31, 2008 that did not vest immediately

compared to Q2-F'08 when the Company granted 100,000 options to its Science Advisory Committee members that vested upon grant.

Operational Results Summary by Quarter

Table 3 below summarizes the operating results by quarter for the current year and the past two fiscal years.

Table 3: Summary of Quarterly Results
(Unaudited)

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	6 Mths YTD
Revenues	$ -	$ 5,982			$ 5,982
Total loss before other income	(898,304)	(759,908)			(1,658,212)
Other income	39,533	34,906			74,439
Total net loss	$ (858,771)	$(725,002)			$(1,583,773)
Net loss per share	$ (0.02)	$ (0.01)			$ (0.03)

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

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

The increasing quarterly loss reflects the Company's acceleration of product and business development activities for its molecules as well as the associated administrative costs of the business.

Liquidity and Capital Resources

At Q2-F'09, the Company had cash, cash equivalents and short-term investments of $5,235,773 compared to $2,936,448 at Q2-F'08 for an increase of $2,299,325 as summarized in Table 1. Since April 30, 2008, the balance of cash, cash equivalents and short-term investments declined by $977,936 from $6,213,709. Operating activities used cash of $684,279 during the quarter and $1,156,166 year to date as highlighted by the increase in operating expenses discussed above.

Financing activities during Q2-F'09 consisted of 23,680 warrants exercised and common shares issued for gross proceeds of $9,472. For the six months ending October 31, 2008 1,064,805 warrants were exercised for gross proceeds of $636,422. At December 15, 2008, the Company had 41,222 outstanding warrants, which if exercised prior to expiry, would generate additional gross proceeds to the Company of $28,855. Offsetting the cash raised year to date was the payment of $353,247 on July 31, 2008 to Whippoorwill Holdings Limited for a maturing promissory note.

The Company's working capital at Q2-F'09 was $5,058,827 compared to $5,591,142 at April 30, 2008. The Company's current assets decreased to $5,472,820 on October 31, 2008 from $6,380,528 on April 30, 2008. This decrease of $907,708 reflects the lower balance of cash, cash equivalents and short-term investments due to the operating losses year to date. Current liabilities decreased $375,393 to $413,993 at Q2-F'09 from $789,386 at April 30, 2008. This decrease reflects a $353,802 decrease in amounts due to shareholders primarily resulting from the payment of the promissory note taken back on the DDP purchase by Whippoorwill Holdings Limited, offset by a $21,591 increase in accounts payable.

The Company's long-term contractual obligations are summarized in Table 4.

Table 4: Contractual Obligations
as at the quarter ended October 31, 2008

Obligation	Total	2009	2010	2011
Capital lease	$ 10,674	$ 9,411	$ 1,263	$ -
Premises rent [(1)]	21,805	18,690	3,115	-
Total contractual obligations	$ 32,479	$ 28,101	$ 4,378	$ -

(1) During FYE 2008 the Company was assessed additional property taxes of approximately $20,000 for prior years. The Company is contesting this assessment. The potential increase in rent expense is $9,000 and $800 for 2009 and 2010 respectively.

Based upon its current cash, cash equivalents and short-term investments, management believes it has sufficient cash resources to carry out its operations for the next 18 months at planned operating levels. The Company has discretion in determining its research and development spending and could extend this time line by deferring such spending. For example,

clinical trials could be delayed by a decision of management. Alternatively, a co-development partner might be identified to share costs. Cash flows from a revenue event such as a licencing deal or collaboration would also positively affect the Company's cash resources. However, in light of uncertainties associated with the development of its molecules and identifying and securing suitable pharmaceutical customer prospects, further financing may be required to support the Company's operations in the future.

Off Balance Sheet Arrangements

The Company has not historically or currently utilized off-balance sheet instruments and does not currently contemplate doing so in the future.

Related Party Transactions

The related party transactions of a material amount, which occurred during Q2-F'09 and for the six months year to date, are set out in Table 5 below. All transactions were incurred and recorded at the exchange amounts agreed to by the parties as approved and reported in prior periods.

As highlighted in notes 9 and 10 of the October 31, 2008 financial statements, there were interest-bearing notes owing to certain shareholders of $49,033 and $20,000 to a related party. All notes were maintained on a current basis through Q2-F'09.

Table 5: Related Party Transactions

Name	Relationship	Business Purpose	Q2-F'09	YTD F'09
Whippoorwill Holdings Limited [1]	Shareholder[2]	Computer lease payments as per lease agreement entered into Oct 1/05. Lease expires March 1/09. The lease is carried as a capital lease obligation on the balance sheet of the Company.	$ 4,620	$ 9,240
		Repaid the 5% promissory note due on July 31, 2008 which was issued to the COTI on the purchase of DDP.	-	353,247
		Interest paid during Q1-F'09 on the 5% promissory note	-	5,830
Directors	Directors [3]	Paid and accrued Board of Directors and Committee meeting fees at rates prescribed and approved by the Board.	32,000	54,000
		Paid Board retainer compensation by stock option grant on June 10, 2008.	$ -	$205,771

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

[2] Mr. John Drake is a shareholder, director and officer of the Company. No cash compensation is paid in his capacity as an officer of the Company.

[3] Directors who are also officers of the Company are not paid for board and committee meeting participation.

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Outstanding Share, Warrant and Option Data

Information on outstanding shares, warrants and options as at the close of business December 15, 2008 is set out in Table 6.

Table 6: Outstanding Share Capital Data

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	46,720,214	
Fully diluted [(1)]	49,162,114	
Weighted average outstanding [(2)]	46,364,381	
Common share warrants		
$0.70 warrants	41,222	Dec 13/08 to Apr 10/10
Common share stock options		
$0.50	500,000	Oct 30/13
$0.64	1,035,000	Jan 11/12
$0.70	50,000	Jan 14/12
$1.34	150,000	Mar 25/12
$1.00	130,000	April 30/12
$2.00	100,000	Oct 8/12
$0.75	335,678	June 9/13
$1.20	100,000	July 15/13
	2,400,678	

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

(2) Weighted average shares outstanding calculated from May 1, 2008 to December 15, 2008.

Operational Progress and Outlook

Organizational Development

During Q2-F'09 the Company made a substantial addition to its management team by announcing the appointment of Mr. Michael Cloutier as Chief Executive Officer. Mr. Cloutier has more than 27 years of pharmaceutical industry experience having held a number of senior management roles in Canada and internationally. These roles have included executive positions with several major pharmaceutical companies such as AstraZeneca, Pharmacia and Searle. The Company also increased the capacity of its research and development department by adding two employees during the quarter.

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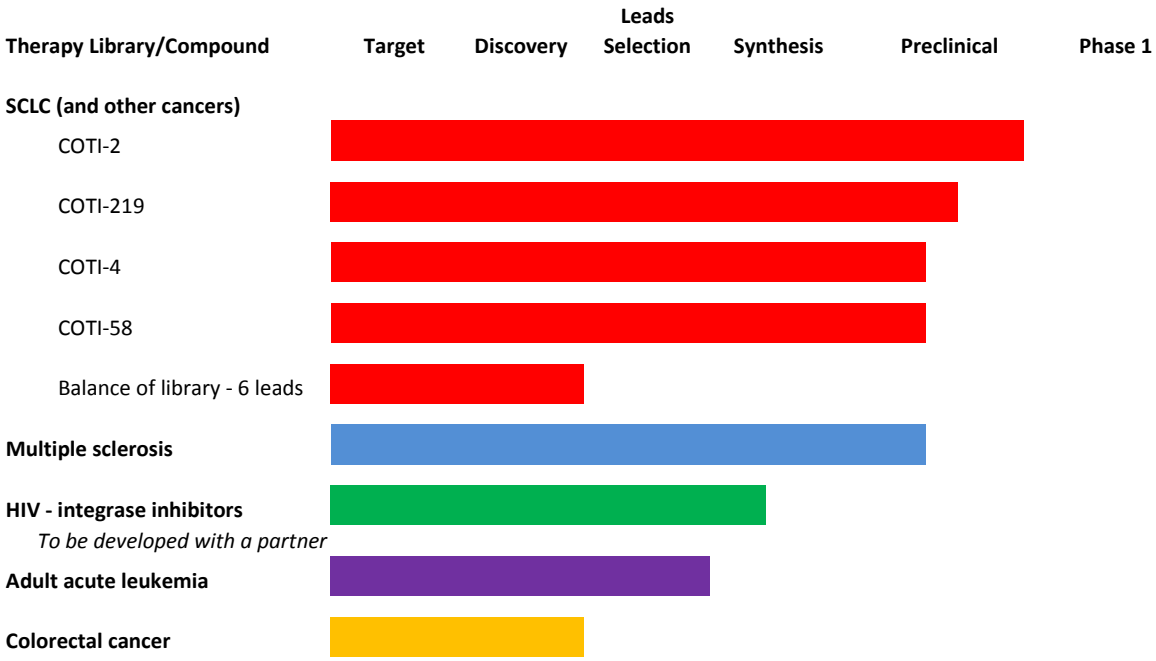
Product Development

The Company made good progress in developing its molecule libraries during Q2-F'09. Figure 1 highlights the status of specific compounds and libraries, including the continued positive development of its lead oncology compound COTI-2 and its recently announced co-development project related to its HIV Integrase program with a major pharmaceutical organization.

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



COTI-2

During the second quarter of 2009, Company representatives continued to pursue a prospective licencing agreement for COTI-2. Concurrently, the Company continued its investment in the molecule by carrying out additional animal experiments and laboratory work to determine a good formulation for this promising drug candidate.

COTI-219

Experiments designed to determine the mechanism of action of COTI-219 continued during Q2-F'09. These experiments will assist Management with decisions regarding additional preclinical development in order to advance the data package for co-development or licensing opportunities.

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COTI-4

A derivative of the original COTI-4 scaffold, COTI4-A, was synthesized during Q1-F'09. After additional patent work is completed, this molecule or an analog will move through preclinical testing during the balance of the fiscal year.

Multiple Sclerosis

Management has delayed its decision regarding the further advancement of this program until March 2009. At that time, it is expected that the patent review opinion from the US Patent and Trademark Office (USPTO) related to a competing patent claim will be available for review. Multiple Sclerosis continues to be an important project for the Company and is likely to proceed when the intellectual property concern has been resolved.

Adult Acute Leukemia (AAL)

The AAL project is based upon patents received by COTI for three tyrosine kinase inhibitor compounds. Tyrosine kinase mutations have been identified as common factors in many cancers and may specifically promote uncontrolled white blood cell proliferation common in leukemia. Management is actively seeking a licensing or co-development partner for these compounds.

HIV Integrase Co-Development Project

As previously announced on September 24, 2008, COTI established a co-development agreement with a major pharmaceutical company to advance up to six HIV-1 integrase inhibitor drug candidates identified using its CHEMSAS® drug discovery process.

Under the agreement, COTI has retained all intellectual property ownership of these drug candidates, including any data resulting from preclinical experiments. COTI has begun the management of the synthetic chemistry process associated with the selected drug candidates with a third party contractor. The cost associated with synthesis will be shared between the two parties. The synthesis of these compounds is expected to be completed in Q-4 2009.

Subsequently during Q-1 2010, the major pharmaceutical company will manage, conduct and fund agreed upon preliminary preclinical experiments as part of its evaluation of COTI's compounds. Once the final experiments have been completed and the results have been received by COTI, the major pharmaceutical company 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 partners for its HIV-1 integrase inhibitor program.

Future Collaboration Projects

Building on a lead discovery collaboration strategy implemented for the Company's pilot project agreements to date, the Company is carrying 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.

Changes in Accounting Policies including Adoption

Adopted in fiscal 2009

The Canadian Institute of Chartered Accountants issued three new standards in its Handbook (HB) that became effective for the Company for its FYE 2009. The impact of these accounting policies on the Company's business is not material. These policies are described below.

a) Section 1535 "Capital Disclosures"

In December 2006, the CICA issued new handbook section 1535 "Capital disclosures", which establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. What the Company regards as capital must be quantified. The Company must also disclose whether it has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This accounting standard was adopted by the Company effective May 1, 2008.

b) Section 3862 "Financial Instruments – Disclosures"

HB 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how these risks are managed. Increased disclosure is required around liquidity, currency and other price risks. Net income sensitivity is required for changes in market risk factors not just interest rates as in HB 3861 the predecessor section. Other specific disclosures not previously required to be disclosed include; movements into or out of a fair value classification, details of collateral pledged or collateral held, reconciliation of changes in financial asset allowance accounts for credit losses, multiple embedded derivatives in compound financial instruments and details of debt defaults. This accounting standard was adopted by the Company effective May 1, 2008.

c) Section 3863 "Financial Instruments – Presentation"

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

To be adopted in fiscal 2010

The Canadian Institute of Chartered Accountants (CICA) issued one new standard in its HB that will become effective for the Company for its FYE 2010. In addition, in February 2008 the CICA confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with limited early adoption allowed starting in calendar year 2009. The Company is currently reviewing the impact of these developments on the presentation of the 2010 financial statements. These developments are described below.

(a) International Financial Reporting Standards (IFRS)

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS such as International Accounting Standard (IAS) 38 "Intangible Assets", thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Company, 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 reporting for its April 30, 2011 year-end. As a result, the Company is developing a plan to convert its financial statements to IFRS. The Company will be utilizing the services of external experts to assist with this task given the limited staff available in the Company. The Company will provide training as necessary to its key employees and will monitor the impact of the transition on its business practices, systems and internal controls over financial reporting over the period leading up to conversion.

A detailed analysis of the differences between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives has commenced. Changes in accounting policies are likely but whether their impact on the financial statements is material has not yet been determined.

Section 3064 "Goodwill and Intangible Assets"

This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible assets". The Corporation is

currently evaluating the impact of this new standard on its intangible assets notably the acquired SCLC molecules and its current granted and in progress patents.