

**Critical Outcome Technologies Inc.  
Management Discussion and Analysis (“MD&A”) of Financial  
Condition and Results of Operations  
for the fiscal year ended April 30, 2007**

**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, 2007, and has been prepared with all information available up to and including August 21, 2007. This analysis should be read in conjunction with the audited financial statements and notes thereto for the year ended April 30, 2007. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). All dollar amounts are expressed in Canadian dollars. Quarterly interim reports and additional supplementary information concerning the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

**Forward-looking Information**

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.

**The Company**

COTI is a reporting issuer resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. (“Aviator”, a public company previously listed on the TSX Venture Exchange (“TSXV”) under the symbol “AVC”) and Critical Outcome Technologies Inc. (“Private 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<sup>®</sup>, which allows for the accelerated identification, profiling and optimization of targeted small molecules. The Company is focused on applying the technology to discover 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 molecules 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.

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**Amalgamation**

On October 13, 2006, the Company concluded an amalgamation pursuant to an Amended Amalgamation Agreement dated August 31, 2006 with Aviator whereby Private COTI and Aviator amalgamated to carry on business as COTI.

Prior to the Amalgamation, Private COTI had 28,967,332 common shares issued and outstanding. Private COTI had also issued; 733,332 common share purchase warrants exercisable into 733,332 common shares at \$0.40 per share (“\$0.40 Warrants”); 3,297,000 common share purchase warrants exercisable into 3,297,000 common shares at \$0.70 per share (“\$0.70 Warrants”); 40,000 agent’s warrants exercisable into 40,000 units at \$0.30 per unit (“\$0.30 Agent’s Warrants”), each unit consisting of one common share and one \$0.40 Warrant; and 659,400 agent’s warrants exercisable into 659,400 units at \$0.40 per unit (“\$0.40 Agent’s Warrants”), each unit consisting of one Common Share and one-half of one \$0.70 Warrant.

After completion of the Amalgamation, the Private COTI common shares were exchanged for 28,967,332 COTI common shares with a deemed value of approximately \$0.34521 per share. In addition, each outstanding \$0.40 warrant, \$0.70 warrant, \$0.30 agent’s warrant and \$0.40 agent’s warrant were exchanged on a one for one basis for replacement securities of COTI with the same terms.

Prior to the Amalgamation, Aviator had 5,635,000 common shares (“Aviator Common Shares”) and no preferred shares issued and outstanding, and had granted agent’s options (“Aviator Agent’s Options”) to acquire up to 275,000 common shares of Aviator. After completion of the Amalgamation, the Aviator Common Shares were exchanged for 5,635,000 common shares of COTI common shares. In addition, the Aviator Agent’s Options were exchanged for Agent Stock Options of COTI entitling holders to acquire up to 275,000 COTI common shares at \$0.10 per common share.

The amalgamation received final approval by the TSXV on Friday October 27, 2006 and COTI commenced trading on the TSXV on October 30, 2006.

**Selected Annual Information**

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

Revenues during the three year period have been modest consisting of contract services and screening revenues with \$32,500 of the revenue in this three year period generated from one customer, DDP, a related party.

Other income reflects the cash recovery of refundable investment tax credits of eligible expenditures under the Canadian Scientific Research & Experimental Development (SRED) program and the Ontario equivalent (OITC) program. The Company will continue to avail itself of these programs in the future. Interest income of \$40,480 was also generated in 2007 on the

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Company’s excess cash balances through short term money market investments. This interest income is expected to continue during fiscal 2008 based upon the Company’s projected spending plans.

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

	2007	2006	2005
Revenue per financial statements	\$ 2,500	\$ 32,500	\$ -
Loss before other income	(1,545,513)	(597,358)	(129,919)
Loss per common share before other income	\$ (0.05)	\$ (0.06)	\$ (0.04)
Other income	115,530	6,429	57,169
Total net loss	(1,429,983)	(590,929)	(72,750)
Total net loss per common share	\$ (0.05)	\$ (0.06)	\$ (0.02)
Dividends declared and paid	\$ -	\$ -	\$ -
Total assets	2,710,280	288,781	84,993
Long term financial obligations	\$ 21,287	\$ 33,525	\$ -

The increasing level of losses is significant as the Company increased activity and expenditures in bringing its technology forward to commercialization. The necessary infrastructure for administration and business development was started in 2005 with the addition of the Company’s first paid employee which was further increased to its current complement of 7 paid full-time employees in 2007. Stock option compensation and salaries and benefits totaled \$847,483 in 2007, \$400,465 in 2006 and \$20,453 in 2005. Synthesis costs in 2007 of \$247,560 on selected molecules from the Company’s multiple sclerosis (MS) library were incurred as the Company implemented its business development plan. These expenditures have enabled COTI to further develop its molecule libraries and raise the profile of the Company’s molecules as potential therapies and have added credibility to the Company’s technology with potential customers, particularly major Pharma companies.

To finance the increasing expenditures over the three year period the Company transitioned from private shareholder and angel financing to public company financing. This can be seen in the significantly larger balance for total assets in 2007, reflecting a cash balance of \$2,417,801 from the impact of the Company’s financing activities. A small private placement in April 2006 provided net proceeds of \$206,500. A larger private placement under an offering memorandum to accredited investors was completed in October 2006 which netted proceeds of \$2,178,877 to COTI. The Company then amalgamated with a capital pool company, Aviator, listed on the TSXV, later in October of 2006 which gave COTI public market exposure to raise additional funds and provided investors liquidity for their ownership. An additional private placement with a single arm’s length investor generated net proceeds of \$984,233 in January 2007.

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The use of lease financing on computer hardware and related peripherals is reflected in the capital lease obligations in 2006 and 2007.

**Results of Operations – for the year ended April 30, 2007**

For the year ended April 30, 2007 (FYE 2007), the Company reported a net loss of \$1,429,983 or \$0.05 per common share compared to a net loss of \$590,929 or \$0.06 per common share in the year ended April 30, 2006 (FYE 2006). This increased loss of \$839,054 resulted from the significantly increased level of activity in the Company during FYE 2007 as the Company moved forward to commercialize its molecule libraries by raising the necessary funds and putting in place the personnel and business processes to support the development efforts of the CHEMSAS® technology and molecule libraries being developed.

*Revenues*

Only modest revenue of \$2,500 was recorded in FYE 2007 compared to \$32,500 in FYE 2006 as the Company focused on developing its molecule libraries.

Investment tax credit (ITC) income of \$75,050 was generated in FYE 2007, based upon eligible expenditures, compared to \$6,540 in FYE 2006. Of this refund, \$56,976 related to the federal SRED program. The federal program refund will no longer be available to the Company in future years by virtue of its public company status but rather eligible ITCs will be deductible against taxes payable as incurred. The Company should continue to receive refundable ITCs for eligible expenditures under the Ontario Innovation Tax Credit program.

The Company earned \$40,480 in interest income on its cash balances in FYE 2007. The Company had only a modest cash position throughout much of FYE 2006 which was insufficient to generate interest income.

*Operating Expenses*

Operating expenses increased from \$629,858 for FYE 2006 to \$1,548,013 for FYE 2007, an increase of \$918,155. Five expense items/categories as set out in Table 2 accounted for \$908,843 of this change or 88.6 % of the total expense increase.

1. Stock-based compensation was the largest expense item in both fiscal years. The increase in this non-cash expense in FYE 2007 relates to stock options granted to individuals who were either directors or employees of the Company. In FYE 2006, the Company was operating as a private company and stock options were granted to, vested and exercised by directors or officers in recognition of their unpaid service and support to the Company at various times from the Company’s inception in 1999 to the April 30, 2006 year end.

The Company believes it is important to tie director’s compensation to the success of the Company; accordingly directors received no other compensation during FYE 2007

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other than stock options. All stock options granted in FYE 2006 vested and were exercised in that year. None of the 1,385,000 common share stock options granted during FYE 2007 have been exercised with vesting of 924,831 options at FYE 2007. The exercise prices were set at the closing market price per share of the day prior to the grant with prices ranging from \$0.64 to \$1.35.

Further detail on stock-based compensation is found in note 10 of the audited financial statements of the Company for the year ended April 30, 2007.

*Table 2: Major Expense Items*

	Expense	FYE 2007	FYE 2006	Change	Chg as a % of Total
1	Stock-based compensation	\$ 424,469	\$ 251,000	\$ 173,469	27.4%
2	Salaries and benefits	423,014	149,465	273,549	27.3%
3	Synthesis costs	247,560	-	247,560	16.0%
4	Professional fees	168,038	48,335	119,703	10.9%
5	Marketing	108,199	13,637	94,562	7.0%
		1,371,280	462,437	908,843	88.6%
	Other expenses	176,733	167,421	9,312	11.4%
	Total	\$ 1,548,013	\$ 629,858	\$ 918,155	100.0%

- Salaries and benefits increased \$273,549 as a direct reflection of the increased staffing to commercialize the Company’s products. At FYE 2007 the Company had six full-time paid employees compared to two full-time paid employees at FYE 2006. The Company did not provide an employee benefits plan beyond statutory requirements during either of these years.
- Synthesis costs increased by \$247,500 in FYE 2007 all related to the process design and manufacture of four MS molecules incurred at two contracted suppliers’ facilities. There were no syntheses activities carried out by COTI in FYE 2006.
- Professional fees increased \$119,703 related to three categories as set out in Table 3.

*Table 3: Professional Fees*

	FYE 2007	FYE 2006	Change
Audit and accounting	\$ 58,819	\$ 16,045	\$ 42,774
Consulting	64,267	15,000	49,267
Legal fees	44,952	17,290	27,662
	\$ 168,038	\$ 48,335	\$ 119,703

The increase in audit and accounting relates to higher costs for a public company audit, financial reporting support, tax compliance and SRED claim support. The consulting fees increase related to contracted operational support for the financing and going public

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transaction, investor relations activities and human resource consulting. The increased legal costs related to support of corporate governance matters as a public company and the higher level of business development activity with the ongoing affairs of the Company.

- Marketing increased \$94,562 primarily due to increased business development activity which resulted in higher travel costs of \$58,905 in FYE 2007 compared to FYE 2006. Marketing material costs for the promotional purposes of increasing the profile of the Company, its technology and molecular libraries increased to \$21,257 in FYE 2007 with no expenditures for such materials in FYE 2006. This included trade show attendance and corporate website redesign.

*Use of Proceeds*

During FYE 2007, the Company closed a financing pursuant to an OM dated September 13, 2006. Table 4 below compares the estimated net proceeds set out in the OM against the actual proceeds raised.

*Table 4: Comparison of Estimated Net Proceeds*

	Assuming Minimum	Assuming Maximum	Actual
Amount to be raised	\$ 2,500,000	\$ 4,000,000	\$ 2,637,600
Selling commissions and fees <sup>(1)</sup>	275,000	425,000	292,769
Offering costs <sup>(2)</sup>	350,000	350,000	165,954
<b>Net proceeds</b>	<b>\$ 1,875,000</b>	<b>\$ 3,225,000</b>	<b>\$ 2,178,877</b>

<sup>(1)</sup> Consists of underwriter's expenses; commission, work fee and legal costs.

<sup>(2)</sup> Consists of Company's expenses; legal fees, audit fees, TSXV fees, printing, courier.

A favourable variance on offering costs of \$184,046 relates to the inclusion of COTI's costs anticipated on the amalgamation with Aviator being included in the original \$350,000 estimate and not in the actual comparative figures presented. The actual direct costs billed to COTI on the amalgamation were \$217,944.

How COTI intended to use the net proceeds raised for a maximum period of 24 months following the close was also set out in the OM. Table 5 below compares that projection against the spending for the six month period November 1, 2006 to April 30, 2007 for the respective categories outlined in the OM. This comparative period follows the close of financing on October 11, 2006, the amalgamation with Aviator on October 13, 2006 and the commencement of trading on the TSXV on October 30, 2006.

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*Table 5: Comparison of Projected Use of Net Proceeds*

Description of Use	24 Month Period		Actual
	Assuming Minimum	Assuming Maximum	Nov 1/06 to April 30/07
Administration	\$ 310,673	\$ 580,673	\$ 304,125
Sales and marketing	326,206	609,706	121,350
Product development	761,148	1,422,638	272,802
Research and development	155,336	290,346	80,784
Working capital deficiency <sup>(1)</sup>	321,637	321,637	467,635
<b>Total</b>	<b>\$ 1,875,000</b>	<b>\$ 3,225,000</b>	<b>\$ 1,246,696</b>

<sup>(1)</sup> The working capital deficiency figure used in the OM was as at August 31, 2006

The actual spending to date has varied from initial projections primarily due to the administrative time and cost requirements of being a public company during the first few months compared to expectations. The working capital deficiency was greater by \$154,998 at the end of October 2006 reflecting operational costs incurred in September and October 2006 and higher amalgamation costs than originally projected.

**Two Year Operational Results Summary by Quarter**

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

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

FYE 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

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Revenues have been modest over the period consisting of screening and contract service revenues as the Company focused on developing its molecular libraries. Other income reflects refundable ITCs received of \$75,050 in FYE 2007 and \$6,429 in FYE 2006. The Company's development activities are increasing however the federal government ITC rate for qualified expenditures is reduced for a public company compared to a private company and is converted to a credit against taxes payable rather than a cash refund for a private company. Eligible expenditures should continue to qualify for the refundable 10% Ontario Innovation Tax Credit (OITC). Other income in Q-4 2007 was entirely interest income on short term cash investments. The Company anticipates having excess cash balances earning interest throughout FYE 2008.

The increasing quarterly loss reflects the Company's planned ramp up of product and business development activities for its molecule libraries as well as the associated administrative costs of the business. Significant non-cash expense related to stock-based compensation of \$675,469 is reflected in the two year period with \$251,000 in Q-4 2006, \$213,705 in Q-3 2007 and \$210,764 in Q-4 2007. Total synthesis costs of \$247,500 were incurred in Q-3 and 4 of FYE 2007 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.

**Analysis of Fourth Quarter (Q-4) 2007**

For the three month period ended April 30, 2007 (Q-4 2007), the net loss amounted to \$663,957 or \$0.02 per share compared to a net loss of \$430,620 or \$0.03 per share for the period ending April 30, 2006 (Q-4 2006) as set out in Table 7 below. This increase of \$233,337 relates primarily to an increase in synthesis costs and salaries and benefits which increased \$149,620 and \$103,113 respectively in Q-4 2007 compared to Q-4 2006.

The MS molecule syntheses started in Q-3 2007 continued in Q-4 2007. Two employees were added during Q-4 2007 bringing the full time staff complement to 7 compared to 2 employees at Q-4 2006.

Q-4 2007 reorganization expense reflects the finalization of amalgamation costs related to the amalgamation with Aviator on October 13, 2006. This expense reflects the excess of these costs over the cash held by Aviator upon amalgamation. The Q-4 2006 reorganization expense reflects the cost of amalgamation which exceeded cash on amalgamation of Private COTI with 1336554 Ontario Inc, a parent holding company, in April 2006. The Company expects these reorganization expenses to be non-recurring costs.

The other cost increases during Q-4 2007 compared to Q-4 2006 reflect the increased business activity of the Company as it advanced its technology forward in the quarter following the financing of October 2006. Other costs in Q-4 2007 such as corporate governance associated with being a public company and directors' liability insurance were not incurred in Q-4 2006 in Private COTI.



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*Table 7: Statements of Operations and Deficit*  
*three months ended April 30*  
*(unaudited)*

	FYE 2007 Q-4	FYE 2006 Q-4	Change
Revenues	\$ -	\$ -	\$ -
Expenses:			
Stock option compensation	210,764	251,000	(40,236)
Salaries and benefits	147,517	44,404	103,113
Synthesis costs	149,620	-	149,620
Professional fees	68,605	14,783	53,822
Marketing	27,744	9,948	17,796
Amortization of furniture & equipment	6,075	8,907	(2,832)
Office and general	12,951	2,905	10,046
Computer expense	14,226	333	13,893
Reorganization costs	24,464	82,580	(58,116)
Rent	4,673	4,400	273
Research and product development	490	9,000	(8,510)
Corporate Governance	8,882	-	8,882
Insurance	9,804	-	9,804
Interest and bank charges	1,802	1,923	(121)
Amortization of trademark	217	217	-
Loss before other income	687,834	430,400	257,434
Other income	23,877	(220)	24,097
Loss	\$ 663,957	\$ 430,620	\$ 233,337
Basic and diluted loss per common share	\$ 0.02	\$ 0.04	
Weighted average number of common shares outstanding	37,275,670	12,233,978	

**Liquidity and Capital Resources**

At FYE 2007, the Company had cash and cash equivalents of \$2,417,801 compared to \$170,464 at FYE 2006 for an increase of \$2,247,337 as summarized in Table 8 below. The Company also had access to a \$10,000 overdraft line of credit on its business chequing account which was unused at FYE 2007.

The investing activities in FYE 2007 related to \$18,223 in computer hardware and peripherals and to \$65,571 in patent costs. Investments in these areas will continue as the Company relies extensively on state of the art PC computing power to run its profiling processes and the patent costs are an important part of the intellectual property protection on its molecules.

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*Table 8: Summary of Cash flows  
for the years ended April 30*

	2007	2006	Change
Operating activities	\$ (1,088,057)	\$ (218,994)	\$ (869,063)
Investing activities	(83,794)	(22,810)	(60,984)
Financing activities before issuance of common shares and warrants	(41,685)	103,903	(145,588)
Increase (decrease) in cash and cash equivalents before issuance of common shares and warrants	(1,213,536)	(137,901)	(1,075,635)
Issuance of common shares and warrants	3,460,873	306,545	3,154,328
Increase in cash and cash equivalents	2,247,337	168,644	2,078,693
Cash and cash equivalents - beginning of year	170,464	1,820	168,644
Cash and cash equivalents - end of year	\$ 2,417,801	\$ 170,464	\$ 2,247,337

The increased cash during FYE 2007, as highlighted in Table 8, was due primarily to funds generated by the issuance of common shares and warrants. These funds came from three sources as follows:

1. On October 11, 2006 the Company completed a private placement of 6,594,000 units for gross proceeds of \$2,637,600 and issued 6,594,000 common shares and 3,297,000 \$0.70 warrants. Each unit consisted of one common share and one-half a common share purchase warrant at an issue price of \$0.40. Each whole common share purchase warrant is exercisable into one additional common share at a price of \$0.70 until April 13, 2008. Costs associated with this placement were \$458,723 for net proceeds of \$2,178,877. In addition, agents were issued 659,400 warrants (agent's warrants) equaling 10% of the number of units sold. Each agent's warrant gives the holder, the right to purchase one unit at \$0.40 until October 13, 2008.
2. On January 16, 2007 the Company completed a private placement of 2,000,000 units at an issue price of \$0.50 per unit for gross proceeds of \$1,000,000. Each unit consisted of one common share and one half a common share purchase warrant with each whole warrant exercisable into one additional common share at a price of \$0.60 per share until July 16, 2008. Costs of the private placement were \$15,767. Pursuant to TSXV regulations, the 2,000,000 shares issued under the Unit offering were subject to a four month hold period ending on May 15, 2007.
3. In addition to the private placements the Company also realized gross proceeds of \$276,713 on the exercise of warrants and \$26,350 on agent stock options during the period December 1, 2006 to April 30, 2007. Costs to issue shares on these exercises were \$11,544 for net proceeds of \$291,519.

Warrant exercises from the end of FYE 2007 to August 21, 2007, generated \$1,014,549 in gross proceeds on issuance of 1,676,415 shares as shown in Table 9. This has raised the Company's cash and cash equivalent position to approximately \$3.0 million as of this analysis.

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*Table 9: Common Share Issuances to August 21, 2007*

Security exercised	Common Shares Issued	Gross Proceeds
\$0.40 warrants	266,666	\$ 106,666
\$0.40 agent warrants	263,140	105,256
\$0.70 warrants	1,146,609	802,627
	1,676,415	\$ 1,014,549

At August 21, 2007 outstanding warrants, if exercised prior to expiry, could lead to the issuance of 3,781,796 additional common shares for gross proceeds of \$2,432,520.

The Company is no longer eligible for refundable ITCs under the federal SRED program as a public company. It is anticipated that future expenditures for molecule development and confirmatory testing will qualify for the program and will continue to generate cash refunds under the OITC program.

The Company’s working capital at FYE 2007 was \$2,212,903 compared to a working capital deficit at FYE 2006 of \$(175,041). Current assets increased to \$2,550,869 at FYE 2007 from \$184,547 at FYE 2006 for an increase of \$2,366,322 primarily due to the increased cash and cash equivalents of \$2,247,337. GST recoverable which increased \$64,499 and an increase in prepaid insurance and computer leases of \$52,821 accounted for most of the remaining increase. Current liabilities decreased \$21,622 to \$337,966 at FYE 2007 from \$359,588 at FYE 2006. This decrease in current liabilities reflects a \$7,825 increase in accounts payable and a \$4,116 increase in the current portion of capital lease obligations offset by a \$25,000 reduction in advances from Aviator which were applied to the costs of closing the amalgamation and \$8,563 in repayment of shareholder advances.

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

The Company entered into a new lease for additional space adjoining its current office and will be renovating and furnishing the combined space at an estimate cost of \$120,000 by the end of August 2007. These costs will be funded from current cash resources.

*Table 10: Contractual Obligations*  
*for the years ended April 30*

Obligation	Total	2008	2009	2010	2011
Capital lease	\$ 41,531	\$ 20,244	\$ 20,023	\$ 1,264	\$ -
Premises rent <sup>(1)</sup>	73,208	32,709	37,384	3,115	-
<b>Total contractual obligations</b>	<b>\$ 114,739</b>	<b>\$ 52,953</b>	<b>\$ 57,407</b>	<b>\$ 4,379</b>	<b>\$ -</b>

<sup>(1)</sup> At FYE 2007 the Company was on a monthly lease for its 800 sq. ft. office premises which continued until May 31, 2007. The Company entered into a two year lease effective June 1, 2007 for 1600 sq. ft. of office space consisting of its existing space and 800 sq.ft. of adjoining space at a rent of \$3,115 per month starting on August 1, 2007 with the initial first two months rent negotiated at \$1,557 consistent with its monthly rent in FYE 2007.

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

**Off Balance Sheet Arrangements**

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

**Related Party Transactions**

The related party transactions of a material amount which occurred during FYE 2007 are set out in Table 11 below. All transactions were incurred and recorded at the exchange amounts agreed to by the parties.

As highlighted in notes 6 and 7 of the FYE 2007 financial statements, there were interest bearing notes owing to certain shareholders and a related party of \$80,533 and \$20,000 respectively. No interest was paid on these notes during the year. Subsequent to the year end, the accrued interest outstanding was paid out in the amount of \$19,785. Effective May 1, 2007, interest earned on these notes is to be paid on a monthly basis.

*Table 11: Related Party Transactions*

Name	Relationship	Business Purpose	Amount
Whippoorwill Holdings Limited <sup>(1)</sup>	Shareholder <sup>(3)</sup>	Computer lease payments as per lease agreement entered into Oct 1/05. Lease expires March 1/09. The lease is carried as a capital lease obligation on the balance sheet of COTI.	\$ 18,480
		Certain financing expenses paid on behalf of COTI during the financing road show and repaid upon close of the October 2006 financing.	40,323
		Interest expense accrual on notes payable owing to the shareholder which interest was not paid out by the Company at April 30.	2,205
Dean Gendron <sup>(2)</sup>	Shareholder & Officer <sup>(3)</sup>	Monthly consulting contract fees paid for role in assisting with financing, investor relations and molecule marketing.	60,000
Dr. Kathleen Ferguson	Shareholder & Officer <sup>(3)</sup>	Consulting fees paid by COTI for administrative support.	3,750
		Non-interest bearing cash advance to COTI to support operations prior to the close of financing and subsequently repaid by COTI.	\$ 12,000

<sup>(1)</sup> Wholly owned company of COTI's CEO Mr. John Drake.

<sup>(2)</sup> The consulting contract with Mr. Gendron terminated on June 30, 2007.

<sup>(3)</sup> None of the shareholders/officers/related parties noted above are paid employees of the Company.

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**Investment in DDP Therapeutics**

The Company has a 10% ownership interest and certain shareholders of COTI have a 50% ownership interest in 6441513 Canada Inc, operating as DDP Therapeutics (DDP), a Canadian private corporation. Under an agreement dated April 7, 2006, pursuant to a Memorandum of Understanding dated August 31, 2005, the Company transferred the library of SCLC molecules to DDP for \$1. Under the terms of an Assignment and Royalty agreement of April 7, 2006, COTI is entitled to receive a royalty fee in an amount equal to 10% of the aggregate net proceeds raised by DDP in connection with any financing to support;

- a) the validation of the transferred technology for purposes of an investigational new drug (IND) filing, and
- b) entering into a strategic agreement with a pharmaceutical company

Net proceeds is defined as the gross amount realized from the financing less the direct costs incurred by DDP in completing the financing. COTI is entitled to receive the royalty fee within five business days of the closing of the financing.

The transferred technology was COTI’s most advanced molecule library in the summer of calendar 2005 which was targeted at SCLC. This included all intellectual property surrounding these molecules.

Since becoming a public company in October 2006, 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.

**Proposed Transaction**

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

A Special Committee (SC) of the Board consisting of independent directors was created to review the proposal. The SC reported to the Board on June 11, 2007 and recommended that based on recent positive preclinical test results of the SCLC molecules related to toxicity and resistance, along with preliminary mechanism of action data that further investigation and evaluation of the proposal was warranted. The Company has begun its due diligence process and may make a counter proposal depending upon the outcome of that process.

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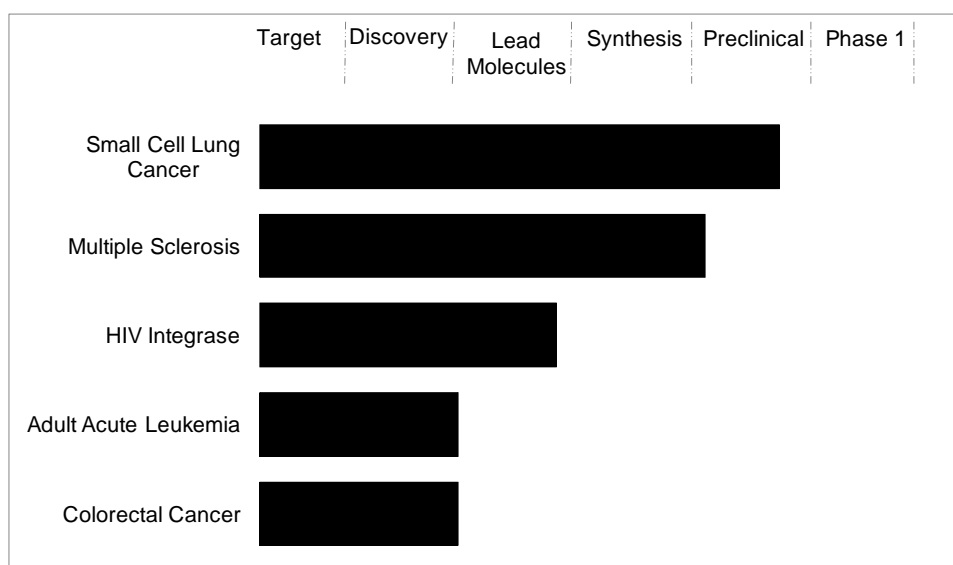
**Outlook**

During FYE 2007, the Company made significant progress in developing its molecule libraries. Figure 1 provides a status update on the Company’s progress based upon the development milestones in the Company’s process.

Throughout FYE 2007, COTI actively directed the preclinical development of the small cell lung cancer (SCLC) project in collaboration with DDP. The SCLC library has undergone a wide variety of preclinical tests and results have been encouraging. Details on this library appeared under the Investment in DDP Therapeutics discussion.

In November 2006, COTI completed the lead selection of its MS library. During the four months that followed, COTI encountered challenges in synthesizing the first four lead compounds due to their novel structures and synthesis which required extensive medicinal chemistry expertise. As a result, COTI expanded its medicinal chemistry resource base to include two third party contractors. Three COTI MS compounds have now entered initial testing in the animal model of Acute Allergic Encephalitis. The COTI MS compounds are designed to be orally-available and have low toxicity, which will represent an important therapeutic development for patients with this common debilitating disease. Datamonitor reports that the MS global market is forecasted to grow from \$5 Billion US to approximately \$11 Billion US by 2016. This will be largely driven by new oral treatments that are currently in development. Management sees this as a potentially significant opportunity since market research indicates there are a number of Pharma companies that currently have an injection MS treatment but do not have an orally-available treatment in their development pipelines. These companies have been researched and identified by COTI as prospective partners.

*Figure 1: COTI Product Development Pipeline at August 14, 2007*



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COTI has also made measurable progress with the HIV Integrase Inhibitor compounds which are undergoing final patentability evaluation prior to synthesis.

The Adult Acute Leukemia (AAL) project has also progressed with notice of European patent grant on two different AAL molecule chemical scaffolds with the final patent expected to be received in mid-October 2007.

During FYE 2007, the Company also increased its business development activities with the specific intent of building a profile in the pharmaceutical industry and developing relationships with key decision makers in pharmaceutical companies. These included; a business development trip to Europe for a series of invited meetings with major pharmaceutical companies,, attendance at BIO 2007 in Boston, USA attendance at a partnering event in Montreal, Canada and attendance to ASCO 2007 in Chicago, USA..

Based on feedback from prospective customers, COTI has enhanced its business development strategy by employing an approach using pilot projects as a means to develop relationships. Taking into account that CHEMSAS® is viewed as a significant step-change in how drug discovery is carried out, a pilot project strategy affords pharmaceutical companies the opportunity to evaluate COTI’s technology and provide COTI with a means by which relationships are created. The scope of pilot projects is typically focused on COTI identifying and optimizing a series of lead compounds. COTI encourages partners to select therapeutic areas that have significant commercial value for them. The Company’s service pricing strategy incorporates a modest upfront fee designed to minimize barriers to entry. The Company’s long term interests are protected by incorporating a shared risk/reward revenue model delivered through a series of milestone payments based on preclinical test results. The management of COTI is seeking to engage in 2-4 of these projects to allow for internal resources to continue to be allocated to COTI’s molecule library development. Several pilot project opportunities are currently in the discussion phase. The management of COTI believes that this represents an effective approach for enhancing value to the Company and its shareholders.

In its OM of September 13, 2006, COTI management estimated that it would achieve revenue in the first 18 months after becoming a public company. Management continues to work toward achieving this goal.

**Disclosure Controls and Procedures**

The Company’s disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to its Continuous Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure. The Company has evaluated the effectiveness of its disclosure controls and procedures as of April 30, 2007 and has concluded that the current disclosure controls and procedures are effective subject to the weaknesses identified in Internal Control over Financial Reporting.

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**Internal Control over Financial Reporting**

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles (GAAP). In designing and evaluating controls and procedures, management of COTI recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Management was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems (requires trust in and integrity of, those individuals charged with execution of the procedures in applying due care and diligence in their duties) means no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Management has assessed the design of the Company’s internal controls over financial reporting as of April 30, 2007, pursuant to the requirements of Multilateral Instrument 52-109 and has identified a number of design weaknesses set out below.

1. Inadequate Segregation of Duties

The Company has identified there is a lack of segregation of duties in three areas:

- The authorization, recording, review and reconciliation of purchases;
- The recording of cash receipts, the reconciliation of bank accounts and the management of the Company’s cash balances;
- The recording of all transactions to the general ledger, preparation of reports and reporting of such activities to management.

This weakness is characteristic of a small company with only a few employees wherein one individual is accountable for this entire function. Nevertheless, these weaknesses have the potential to result in material misstatements in the Company’s financial statements, and may also be a material weakness in disclosure controls and procedures.

Management has concluded that at its present stage of development and with its current financial resources that it is in the best interests of its shareholders to add additional staff to its’ finance and administration function. The Company anticipates adding at least one staff member to this area by the end of second quarter fiscal 2008. At the present time to mitigate this weakness the Company will continue to rely on the vigilance of its small management team and audit committee oversight.

2. Inadequate Staffing

The Company has identified there is insufficient staffing to meet the demands of a public company in two areas:



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- Expertise in financial reporting matters particularly with respect to recent developments regarding GAAP and impending developments which might impact on the Company’s financial reporting requirements;
- Expertise in corporate governance matters to deal with the myriad of regulatory requirements of a public company.

This weakness relates to the workload demands’ on the personnel of a small company and has the potential to result in material misstatements in the Company’s financial statements, and may, also be a material weakness in disclosure controls and procedures. This weakness is also consistent with the duty segregation weakness noted above.

Consistent with its recommendation for the segregation of duties weakness, management is committed to adding additional staff to its finance and administration function. The Company anticipates adding at least one staff member to this area by the end of second quarter fiscal 2008. To mitigate this weakness the Company has to date relied on contracted services from external accountants not engaged in the Company’s audit, legal counsel and third party providers of specialty services in the corporate governance area. This will continue for the foreseeable future.

**3. Lack of a Formal Approval System for Material Commitments**

Management has concluded a weakness exists through a lack of formal protocols for senior management to seek and obtain approval for material purchase commitments in the areas of synthesis, product testing and patenting prior to commitment. This lack of formality could result in misunderstanding and/or miscommunication as to the nature, extent and amount of such commitments and potential material misstatements in the financial statements.

Management has concluded that a more formal, procedural system needs to be established to document the approvals and related details of its product development commitments as the activity level builds in the product development area. Initial top level protocols are currently being discussed with detailed procedures and responsibilities to follow. Management anticipates having this formal system in place by the end of second quarter 2008.

**4. Lack of a Formal Computerized Accounting System**

Management has identified that the Company has outgrown its manual accounting system with its reliance on spreadsheets in maintaining its accounting records as such a system could result in material misstatement due to the following shortcomings:

- Prone to manual error and increased time to manage
- More susceptible to manual intervention on the transactions recorded therein
- A hindrance to the timely production of financial reporting information due to the amount of work required to maintain such a system and the duplication of processes handled more accurately and timely by a computerized system.

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Management is committed to installing a computer accounting system to support its operations and financial reporting capabilities. This system will also support efforts in dealing with the segregation of duties and staffing weaknesses. The Company expects to have a system fully operational by the end of second quarter fiscal 2008.

The weaknesses identified in this annual MD&A were consistent throughout the fiscal year as the Company had only two paid employees upon commencing the year and has grown to seven employees as financing permitted and operational activities developed and expanded. It is this growth which has caused these potential material weaknesses to become manifest and which management is cognizant of monitoring and managing as it grows.

**Critical Accounting Policies and Estimates**

The financial statements of the Company were prepared in accordance with Canadian GAAP. 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 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.

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

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compensation grants in January 2007 used a volatility rate of 60%. As trading data accumulated a mathematical model used in the BSM was adopted. Having been a public company for eight months at April 30, 2007 and having a relatively low share trading price the impact of small price changes had a significant impact on the volatility calculation. The rate was determined after this period to be 145%.

The Company will be 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 year ended April 30, 2007, total stock-based compensation expense of \$424,469 (2006 - \$251,000) was calculated using the Black Scholes option pricing model. A weighted average grant date fair value of \$0.392 for each option grant was estimated using the following assumptions: no dividends are to be paid; expected volatility of 60% in Q-3 2007 and 145% in Q-4 2007; risk free interest rate of 3.98% in Q-3 2007 and 4.54% in Q-4 2007 and expected life of 2.57 years for Q-3 2007 and 5 years for Q-4 2007. An equivalent amount is credited to contributed surplus.

**Future Changes in Accounting Policies**

The Canadian Institute of Chartered Accountants issued three new standards in its Handbook (HB) that will become effective for the Company for its FYE 2008. The impact of these accounting policies on the Company’s current business activities is not anticipated to be material.

1. HB section 3855 Financial Instruments – Recognition and Measurement

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables or other liabilities. Adoption of this standard will not have a material impact on the Company’s financial statements.

2. HB section 1530 Comprehensive Income

This standard requires that the Company present comprehensive income and its components, in a separate financial statement that is displayed with the same prominence as other financial statements. This means that certain gains and losses arising from changes in fair value will be temporarily recorded outside the statement of earnings in a new statement of comprehensive income. Unrealized gains or losses on qualifying hedging instruments, foreign currency and

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unrealized gains or losses on financial instruments held for sale will be included in comprehensive income.

3. HB section 3865 Hedges

This standard introduces three specific types of hedging relationships; fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations. For fair value hedges where a company is hedging changes in the fair value of assets, liabilities or firm commitments, the change in the fair value of derivatives and hedged items attributable to the hedged risk must be recorded in the statement of income. For cash flow hedges where a company is hedging the variability in cash flows related to variable rate assets, liabilities or forecasted transactions, the effective portion of the changes in the fair values of the derivative instruments must be recorded through other comprehensive income until the hedged items are recognized in the statement of income. At the present time the Company has no hedge activities.

**Financial Instruments and Other Instruments**

The Company’s financial instruments consist of cash and cash equivalents, advances and other receivables, short-term investments, investments and accounts payable. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity for prompt liquidation.

**Outstanding Share Data**

Outstanding share information as at the close of business August 20, 2007 is set out in Table 12.

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*Table 12: Outstanding Share Data  
as at August 21, 2007*

	Outstanding	Expiry Date
<b>Common shares</b>		
Authorized - unlimited		
Issued	39,183,467	
Fully diluted	44,580,263	
Weighted average outstanding <sup>(1)</sup>	38,006,707	
<b>Common share purchase warrants</b>		
\$0.40 warrants	266,666	April 18/08
\$0.40 agent warrants	115,790	Oct 12/08
\$0.60 warrants	1,000,000	July 15/08 April 12/08
\$0.70 warrants	2,399,340	to Feb 14/09
	3,781,796	
<b>Common share options</b>		
\$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 August 21, 2007.