Critical Outcome Technologies Inc.

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

Fiscal 2009 – Third Quarter - three and nine months ended January 31, 2009

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 January 31, 2009, and has been prepared with all information available up to and including March 11, 2009. 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 January 31, 2009 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.

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.

Using CHEMSAS®, the Company is developing a pipeline of highly optimized libraries of 6 to 10 novel, proprietary, small molecules for specific therapeutic targets that have high morbidity and mortality and currently have either poor or no effective therapies. The Company plans to license these molecules to interested pharmaceutical partners for further drug development and human trials. Currently, libraries in various stages of development in the pipeline include; small cell lung cancer, adult acute leukemia, colorectal cancer and other cancers, HIV integrase inhibitors and multiple sclerosis.

In addition to licensing its targeted libraries, the Company may also choose to take particularly promising individual molecules forward to preclinical and potentially Phase 1 clinical trials. This would involve additional preclinical testing and associated costs with making an investigational new drug application (IND filing) in the United States or a new drug submission (NDS) in Canada and a plan for human Phase 1 clinical studies. These compounds would then be available for licensing or co-development with a 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.

The Company is also in discussions with several pharmaceutical 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 another revenue stream and more predictable cash flows 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. Management believes that this service offering to prospective customers represents an effective approach for enhancing value to the Company and its shareholders.

Results of Operations

For the three months ended January 31, 2009 (Q3-F'09), the Company reported a net loss of $(998,301) or $(0.02) per common share compared to a net loss of $(269,404) or $(0.01) per common share in January 31, 2008 (Q3-F'08). This increased loss of $728,897 resulted from five main sources; increased research and development of $368,077, amortization of the small cell

lung cancer (SCLC) molecules acquired in fiscal 2008 of $97,224, increased stock based compensation of $101,609, increased professional fees of $39,768 and increased corporate governance costs of $61,863.

For the nine months ended January 31, 2009 the Company recorded a net loss of $(2,582,074) or $(0.06) per share compared to a net loss of $(1,289,830) or $(0.03) per share for the nine months ending January 31, 2008. The expenses leading to this increased loss of $1,292,244 are consistent with the current quarter's pace of spending as research and development costs increased $749,684, corporate governance costs increased $104,236 and molecule amortization increased $291,672.

Revenues

Operating revenues of $13,204 were recorded from milestone testing fees in Q3-F'09 compared to $30,822 in Q3-F'08.

The Company earned $27,910 in interest income in Q3-F'09 compared to $61,865 in Q3-F'08. The decrease reflects the lower cash, cash equivalent and short-term investment balances held by the Company, as well as the lower interest rates available during the current quarter, compared to Q3-F'08 as illustrated in Table 1.

Table 1: Comparative Summary of Cash, Cash Equivalents and Short-term Investments

	Jan 31, 2009	Jan 31, 2008
Cash	$ 205,583	$ 305,161
Cash equivalent	161,227	4,755,927
Short-term investments	4,082,820	999,202
Total	$ 4,449,630	$6,060,290

Operating Expenses

Operating expenses increased from $362,091 for Q3-F'08 to $1,050,035 for Q3-F'09, an increase of $687,944. Four expense categories as set out in Table 2 accounted for this change.

Table 2: Major Expense Items

Expense	Q3-F'09	Q3-F'08	Change	Change as % of Total
Research and development [(1)]	$ 380,790	$ 12,713	$ 368,077	53.5%
Amortization of molecules	97,224	-	97,224	14.1%
Stock-based compensation	86,922	(14,687)	101,609	14.8%
	564,936	(1,974)	566,910	82.4%
Other expenses	485,099	364,065	121,034	17.6%
Total	$1,050,035	$ 362,091	$ 687,944	100.0%

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

1. The research and development expense increase reflects preclinical in vitro and in vivo testing of $102,212, synthesis costs of $238,332 related to COTI-2, 4 and 219 with primary emphasis on COTI-2 and other research and development expenses of $40,246. The Q3-F'08 research and development expense was comprised of $314 in synthesis costs and $12,399 of in vitro testing.

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-F'08.

3. The stock-based compensation in Q3-F'09 reflects the compensation cost of options vesting in the quarter. No new options were granted in Q3-F'09. The negative stock-based compensation of Q3-F'08 was due to the expiry of unvested stock options and the resulting recovery of previously recognized stock option compensation associated with these options.

Operational Results Summary by Quarter

Table 3 below summarizes the operating results by quarter for the current and 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	9 Mths YTD
Revenues	$ -	$ 5,982	$ 13,205		$ 19,187
Total loss before other income	(898,304)	(759,908)	(1,036,833)		(2,695,045)
Other income	39,533	34,906	38,532		112,971
Total net loss	$ (858,771)	$ (725,002)	$ (998,301)		$ (2,582,074)
Net loss per share	$ (0.02)	$ (0.01)	$ (0.02)		$ (0.06)

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 research and development activities with both third parties and internal research staff efforts.

Liquidity and Capital Resources

At Q3-F'09, the Company had cash, cash equivalents and short-term investments of $4,449,630 compared to $6,060,290 at Q3-F'08 for a decrease of $1,610,660 as summarized in Table 1. Since April 30, 2008, the balance of cash, cash equivalents and short-term investments declined by $1,764,079 from $6,213,709. Operating activities used cash of $632,312 during the quarter

and $1,788,476 year to date as highlighted by the increase in operating expenses discussed above.

There were no financing activities during Q3-F'09, however, 44,320 warrants and 26,600 vested options expired during Q3-F'09. For the nine months ending January 31, 2009, 1,064,805 warrants were exercised for gross proceeds of $636,422. At January 31, 2009, the Company had 18,904 outstanding warrants, which if exercised prior to expiry, would generate additional gross proceeds to the Company of $13,233. In addition, there were 2,374,078 outstanding stock options with an average exercise price of $0.77 that would provide gross proceeds to the Company of $1,831,709 if exercised. Offsetting the cash raised year to date was the payment of $353,244 on July 31, 2008 to Whippoorwill Holdings Limited for a maturing promissory note.

The Company's working capital at January 31, 2009 was $4,116,029 compared to $5,591,142 at April 30, 2008. The Company's current assets decreased to $4,643,680 on January 31, 2009 from $6,363,171 on April 30, 2008. This decrease of $1,719,491 primarily reflects the lower balance of cash, cash equivalents and short-term investments due to the operating losses year to date. Current liabilities decreased $244,378 to $527,651 at Q3-F'09 from $772,029 at April 30, 2008. This decrease reflects a $353,244 decrease in amounts due to shareholders resulting from the payment of the promissory note due on July 31, 2008, offset by a $107,553 increase in accounts payable due to costs incurred on research and development activities.

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

Table 4: Contractual Obligations
as at the quarter ended January 31, 2009

Obligation	Total	2009	2010	2011
Capital lease	$ 5,243	$ 3,980	$ 1,263	$ -
Premises rent [(1)]	12,460	9,345	3,115	-
Total contractual obligations	$ 17,703	$ 13,325	$ 4,378	$ -

(1) During fiscal 2009 the Company has been assessed additional property taxes of $6,400, which the Company is contesting. The potential increase in rent expense is $9,000 and $600 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 15 months at planned operating levels. The Company is continuously exploring alternatives to increasing its cash resources until it reaches revenue and positive cashflow. These include: discretion in its research and development spending such as the delay of clinical trials, pursuing co-development partnerships to share development costs and potential government support programs. However, in light of uncertainties associated with achieving a major revenue event, 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

Related party transactions of a material amount, which occurred during Q3-F'09 and for the nine 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.

At the quarter end, there were interest-bearing notes due on demand owing to certain shareholders of $49,033 and to a related party of $20,000. All interest payments were maintained on a current basis through Q3-F'09.

Table 5: Related Party Transactions

Name	Relationship	Business Purpose	Q3-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	$ 13,860
		Repaid the 5% promissory note due on July 31, 2008, which was issued to COTI on the purchase of DDP.	-	353,247
		Interest paid during Q1-F'09 on the 5% promissory note	-	5,830

[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.

On February 17, 2009, the Board of Directors approved a grant of 422,389 stock options to the directors. The options vested immediately with an exercise price of $0.90 per share and have a five-year life. The value of this stock-based compensation grant is estimated as $415,208.

Outstanding Share, Warrant and Option Data

Information on outstanding shares, warrants and options as at the close of business March 11, 2009 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)]	49,533,583	
Weighted average outstanding [(2)]	46,462,659	
Common share warrants		
$0.70 warrants	16,902	Jul 17/09 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
$0.75	309,078	Jun 9/13
$0.90	422,389	Feb 16/14
$1.00	130,000	Apr 30/12
$1.20	100,000	Jul 15/13
$1.34	150,000	Mar 25/12
$2.00	100,000	Oct 8/12
	2,796,467	

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

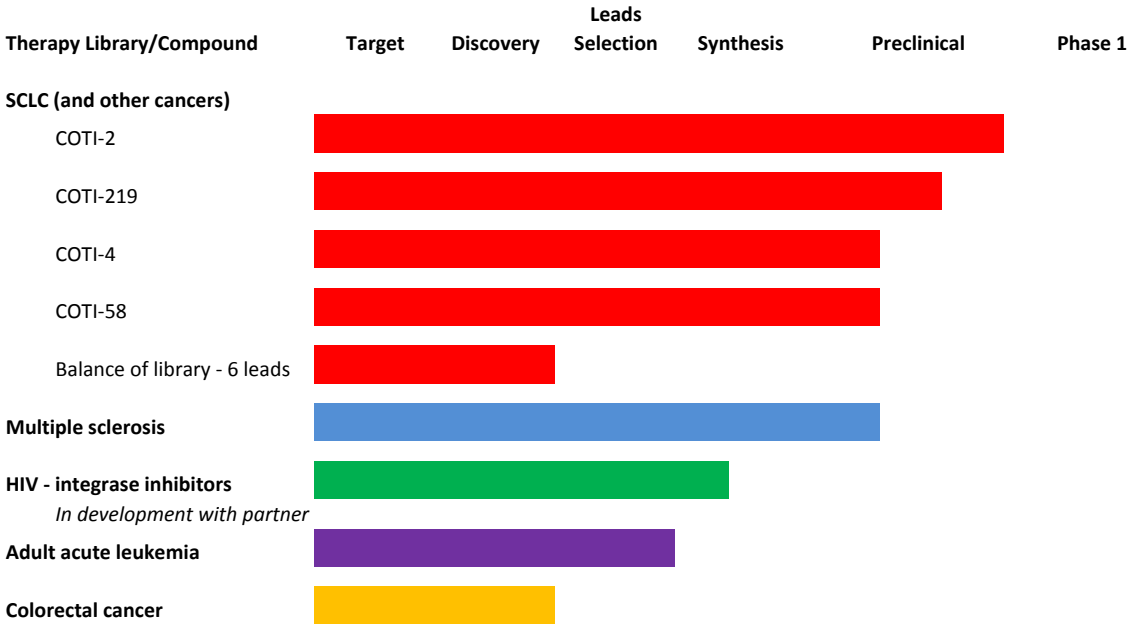
(2) Weighted average shares outstanding calculated from May 1, 2008 to March 11, 2009.

Operational Progress and Outlook

Product Development

The Company made good progress in developing its molecule libraries during Q3-F'09. Figure 1 highlights the status of specific compounds and libraries, including the continued positive development of its lead oncology compound COTI-2.

Figure 1: COTI Product Development Pipeline at March 4, 2009



COTI-2

During the third quarter of 2009, Company representatives advanced discussions with multiple pharmaceutical organizations regarding a prospective licensing agreement for COTI-2. Concurrently, the Company continued its investment in the molecule by carrying out additional animal experiments and laboratory work to determine an optimal formulation for PK-Tox animal testing of this promising drug candidate. In addition to the formulation work, other Phase 1 enabling research activities continued during Q3-F'09 with continued positive outcomes.

On February 9, 2009, the Company issued a press release announcing significant, new, positive test results. A series of *in vitro* experiments were completed in two independent North American cancer research labs using COTI-2 alone and in combination with either Erbitux® or Tarceva® in seven different human cancer cell lines representing colon cancer and non small cell lung cancer (NSCLC) with the following results:

- COTI-2, as a single agent, inhibited the proliferation of human colon cancer cell lines (HCT-15, HCT-116, HT-29, COLO-205, and SW620) and human NSCLC cell lines (H292 and H1975) at concentrations in the nanomolar range.

- COTI-2, in combination with either Tarceva or Erbitux (administered at concentrations that, as single agents, did not significantly inhibit proliferation of any of the cell lines) had a greater-than-additive capacity to reduce growth in all five colon cancer lines, regardless of KRAS status (normal/wild-type versus mutant).

- COTI-2 in combination with Tarceva (administered at concentrations that, as a single agent, did not significantly inhibit the proliferation of any of the cell lines) had an additive or greater-than-additive capacity to reduce growth in both NSCLC cell lines.

These results are significant in view of the growing body of evidence suggesting cancers with the normal form of the KRAS gene respond better to an important class of cancer drugs, known as EGFR inhibitors (i.e. Tarceva and Erbitux), than cancers with a common mutation of the KRAS gene. Up to 50% of colon cancer tumors and up to 30% of NSCLC tumors will contain the KRAS mutation rendering them less responsive to commonly used and otherwise effective new cancer drugs like Tarceva and Erbitux. Unfortunately, the KRAS mutation is too often associated with a poorer prognosis. This represents a large unmet medical need. A follow up series of experiments with COTI-2 alone and in combination with Tarceva or Erbitux in xenograft models of human colon cancer and NSCLC with the KRAS mutation are scheduled to commence during Q4-F'09.

Because of these results, the Company has undertaken a business development campaign targeted at the organizations that own or have distribution rights to the drugs used in the combination studies.

COTI-219

Experiments designed to determine the mechanism of action of COTI-219 continued during Q3-F'09. These experiments will assist Management with decisions regarding additional preclinical development. The Company also moved forward with commencing additional animal experiments to contribute to a growing data package in preparation for licensing this compound in fiscal 2010.

COTI-4

A derivative of the original COTI-4 scaffold, COTI-4A, 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 fiscal 2009 and into fiscal 2010.

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 potentially competing patent claim will be available for review. Multiple Sclerosis continues to be an important project for the Company and the program is likely to proceed when the intellectual property approach can be clearly defined in relation to this potentially competing claim.

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 continued actively seeking a licensing or co-development partner for these compounds during the quarter.

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.

As of March 2, 2009, the compounds were entering the final stages of synthesis. Subsequently during Q1-F'10, the major pharmaceutical company will manage, conduct and fund agreed upon preliminary preclinical experiments as part of its evaluation of these 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.

Colorectal Cancer

There was no further development of this library during the quarter as resources, both time and money, were focused on the other initiatives.

Future Collaboration Projects

Building on the lead discovery collaboration strategy implemented to date for the Company's pilot project agreements, 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. Discussions with multiple prospective customers are currently on-going following meetings at BIO Europe in November 2008 and BioPartnering in February 2009.

Changes in Accounting Policies including Adoption

Adopted in fiscal 2009

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

a) Section 1535 "Capital Disclosures"

In December 2006, the CICA issued new HB 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 defined and 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 the presentation standards previously embodied in HB 3861 unchanged from the predecessor section adopted in 2008.

To be adopted in fiscal 2010

The CICA issued one new standard in its HB that will become effective for the Company for its fiscal year ending in 2010. In addition, in February 2008 the CICA confirmed that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will converge with International Financial Reporting Standards (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 Accounting Standards Board 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 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 prepare its financial statements under 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.

(b) 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 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 the granted and in progress patents.