



Critical Outcome

Technologies Inc.

**Management Discussion and Analysis of Financial Condition
and Results of Operations**

**Fiscal 2010 - Third Quarter
for the three and nine months ended January 31, 2010**

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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, 2010, and has been prepared with all information available up to and including March 9, 2010. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company’s business and the key factors underlying its financial results. This analysis should be read in conjunction with the audited financial statements and notes thereto for the year ended April 30, 2009. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the information as presented herein represents unaudited disclosure. All dollar amounts are expressed in Canadian dollars. This MD&A and other quarterly interim reports and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

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

The Company

COTI is a company based in London, Ontario resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. (Aviator), a public capital pool company (CPC) 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 for Aviator as a CPC pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and listed on the TSX Venture Exchange (TSXV) under the symbol COT.

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

On May 1, 2008, the Company amalgamated with DDP, its 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 discovery stage of preclinical drug development and thereby reduce the timeline and cost of getting new drug therapies to market.

Using CHEMSAS[®], the Company is developing optimized libraries of 6 to 10 novel, proprietary, small molecules as potential drug candidates for specific therapeutic targets in diseases that have high morbidity and mortality and currently have either poor or no effective therapies. Following synthesis and completion of a core group of confirmatory in vitro and in vivo tests, the Company plans to license or co-develop these molecules with interested pharmaceutical partners for further drug development and human trials. Currently, libraries in various stages of development include small cell lung cancer, adult acute leukemia, colorectal cancer and other cancers, HIV integrase inhibitors, multiple sclerosis and secretase inhibitors for the treatment of Alzheimer's disease.

In addition to licensing its targeted libraries, the Company may also take particularly promising individual molecules forward through various preclinical tests and Phase 1 clinical trials. This activity involves additional preclinical testing and the 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, COTI continues to prepare for a Phase 1 clinical trial submission based on the positive preclinical results achieved from COTI-2, its lead cancer molecule, against a number of cancer indications. Testing initiatives and planning for this event currently target an IND filing in early 2011.

The Company is also in discussion with several multinational pharmaceutical and biotechnology organizations related to leveraging CHEMSAS[®] in identifying lead candidates for targets of commercial interest to these prospective partners. This collaboration approach is seen as an additional revenue stream that complements the Company's concurrent development of its own novel drug candidates. The Company's preferred commercialization strategy for 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 this service offering to prospective customers represents an efficient and effective approach for them in providing discovery stage compounds while enhancing value to the Company and its shareholders from the underlying CHEMSAS[®] technology.

Results of Operations Review

For the three months ended January 31, 2010 (Q3-F'10), the Company reported a net loss of \$773,217 or \$0.02 per common share compared to a net loss of \$998,301 or \$0.02 per common share on January 31, 2009 (Q3-F'09). This decreased loss of \$225,084 resulted primarily from decreased research and product development costs (R&D) of \$251,637.

For the nine months ended January 31, 2010, the Company reported a net loss of \$2,728,984 or \$0.06 per common share compared to a net loss of \$2,582,074 or \$0.06 per common share on January 31, 2009. This increased loss of \$146,910 has resulted from increased general and administration costs of \$197,724, increased stock-based compensation expense of \$52,891 and decreased interest income of

\$85,867, offset by decreased R&D expenses \$84,422 and increased investment tax credit refunds of \$126,166.

Revenues

There were no operating revenues recorded during the quarter or during the nine months ended January 31, 2010 compared to modest revenues of \$13,204 in Q3-F'09 and \$19,187 in revenues in the nine months ended January 31, 2010.

The Company earned \$2,746 in interest income in Q3-F'10 compared to \$27,910 in Q3-F'09. The decrease reflects the lower cash, cash equivalent and short-term investment balances held by the Company as illustrated in Table 1, as well as the lower interest rates on interest bearing balances during the current quarter compared to Q3-F'09.

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

	January 31, 2010	January 31, 2009
Cash	\$ 161,901	\$ 205,583
Cash equivalents	1,114,259	161,227
Short-term investments	300,000	4,082,820
Total	\$ 1,576,160	\$ 4,449,630

Operating Expenses

The Company changed its financial reporting approach for income statement presentation in Q2-F'10, from a nature of expense or transactional presentation to an operational or functional presentation. This change was implemented to harmonize external financial reporting with the internal financial reporting utilized by management and to render the Company's financial results more comparable to the financial reporting approach used by other biotechnology companies.

Operating expenses decreased from \$1,050,035 for Q3-F'09 to \$775,963 for Q3-F'10, a decrease of \$274,072. Two expense categories as set out in Table 2 accounted for the majority of this change.

Table 2: Major Expense Items

Expense	Q3-F'10	Q3-F'09	Change	Change as % of Total
Research and product development	\$ 233,476	\$ 485,113	\$ (251,637)	91.8%
Stock-based compensation	52,895	86,922	(34,027)	12.4%
	286,371	572,035	(285,664)	104.2%
Other expenses	489,592	478,000	11,592	-4.2%
Total	\$ 775,963	\$ 1,050,035	\$ (274,072)	100.0%

The stock-based compensation decrease of \$34,027 in Q3-F'10 reflects a decrease in the amortization of unvested option compensation cost from prior period option grants.

Table 3 summarizes the major components of third party R&D costs for Q3-F'10 and Q3-F'09 accounting for the \$251,637 year over year decrease noted in Table 2. Contract R&D testing, consulting and materials decreased \$73,903 because of discretionary cutbacks on the extent of new R&D projects while the Company seeks additional financing to proceed with such projects. Contract synthesis costs decreased \$179,715, with the majority of these costs on collaboration projects in Q3-F'10.

Table 3: R&D Costs

	Q3-F'10	Q3-F'09	Change
R&D testing, consulting and materials	\$ 68,555	\$ 142,458	\$ (73,903)
Synthesis	58,617	238,332	(179,715)
	127,172	380,790	(253,618)
Labour	104,281	102,074	2,207
Other	2,023	2,249	(226)
Total	\$ 233,476	\$ 485,113	\$ (251,637)

Two Year Operational Results Summary by Quarter

Table 4 summarizes the operating results by quarter for the current and past two fiscal years.

Table 4: Two Year Summary of Quarterly Results

FYE 2010	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	9 Mths YTD
Revenue	\$ -	\$ -	\$ -		\$ -
Loss before other income	(986,900)	(1,119,391)	(775,963)		(2,882,254)
Other income	7,812	142,713	2,746		153,270
Loss	(979,089)	(976,678)	(773,217)		(2,728,984)
Loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.02)		\$ (0.06)

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

FYE 2008	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Full Year
Revenue	\$ -	\$ -	\$ 30,822	\$ -	\$ 30,822
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
Loss	(500,458)	(519,968)	(269,404)	(612,542)	(1,902,372)
Loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.05)

The increasing quarterly loss trend year over year in Q1-F'10 and Q2-F'10 reflected the Company's acceleration of R&D as well as the administrative costs associated with the higher level of activity. In Q3-F'10, management scaled back the extent of R&D activities to conserve cash while focusing on licensing efforts for its lead compound COTI-2 and on seeking financing. The majority of the variations by quarter across the years, and year over year, are explained by a few expenditure categories: R&D, salaries and benefits and stock-based compensation. R&D spending for the balance of F'10 is expected to be consistent with Q3-F'10. Salary levels have not increased during F'10 and no new hires are anticipated during the remainder of F'10 pending financing or a licensing deal.

Liquidity and Capital Resources

At Q3-F'10, the Company had cash, cash equivalents and short-term investments of \$1,576,160 compared to \$2,220,081 at Q2-F'10 for a decrease of \$643,921 in Q3-F'10. This represents a monthly cash burn rate of \$214,640 during the quarter.

There were no investing or financing activities of significance during Q3-F'10.

There were no warrant or stock option exercises during Q3-F'10 however, 3,062 warrants exercisable at \$0.70 per common share expired.

The Company's working capital at Q3-F'10 was \$1,284,975 compared to \$3,367,742 at FYE 2009. Current assets decreased to \$1,673,065 at Q3-F'10 from \$3,804,279 at FYE 2009 for a decrease of \$2,131,214, primarily due to a decrease in cash, cash equivalents and short-term investments. Current liabilities decreased \$48,447 to \$388,090 at Q3-F'10 from \$436,537 at FYE 2009. This decrease relates primarily to reduced R&D spending.

The Company's long-term contractual obligations at January 31, 2010 related to the remainder of fiscal 2010 and to fiscal 2011 are summarized in Table 5.

*Table 5: Contractual Obligations
at the quarter ended January 31, 2010*

Obligation	Total	2010	2011
Premises rent ⁽¹⁾	\$ 9,345	\$ 9,345	\$ -
Research and development contracts	278,380	268,380	10,000
Consulting services	23,100	23,100	-
Total contractual obligations	\$ 310,825	\$ 300,825	\$ 10,000

⁽¹⁾ During fiscal 2009 and 2010 the Company was assessed additional property taxes of \$23,127, which the Company is contesting. The premises lease agreement expired on May 31, 2009 and has been extended on a month to month basis with a 90 day notice period.

Based upon the balance of cash, cash equivalents and short-term investments at the quarter-end, and given the Company's forecasted monthly burn rate it has sufficient cash resources to carry out its operations for the balance of the fiscal year ending April 30, 2010 and through October 2010 of fiscal 2011 at current budgeted operating levels. The Company is focusing its operations on very specific revenue initiatives to generate cash and on reducing discretionary spending and operating costs to conserve cash during the next few months. The Company is continuing to look at different sources of

financing to extend and expand its operations in the coming months to ensure the success of the Company.

Off Balance Sheet Arrangements

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

Related Party Transactions

No related party transactions of a material amount occurred during Q3-F'10.

Outstanding Share Data

Outstanding share information as at the close of business on March 8, 2010 is set out in Table 6.

Table 6: Outstanding Share Data

	Outstanding	Expiry Date
Common shares		
Authorized - unlimited		
Issued	46,720,214	
Fully diluted ⁽¹⁾	50,669,776	
Weighted average outstanding ⁽²⁾	46,720,214	
Common share warrants		
\$0.70 warrants	11,840	April 2/10 to Apr 10/10
Common share stock options		
\$0.47	246,808	Feb 11/15
\$0.50	694,447	Sept 9/14
\$0.50	500,000	Oct 30/13
\$0.50	50,000	Jan 17/15
\$0.64	1,035,000	Jan 11/12
\$0.65	150,000	Jan 17/15
\$0.70	50,000	Jan 14/12
\$0.75	309,078	June 9/13
\$0.90	422,389	Feb 16/14
\$1.00	130,000	April 30/12
\$1.20	100,000	Jul 15/13
\$1.35	150,000	Mar 25/12
\$2.00	100,000	Oct 8/12
	3,937,722	

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

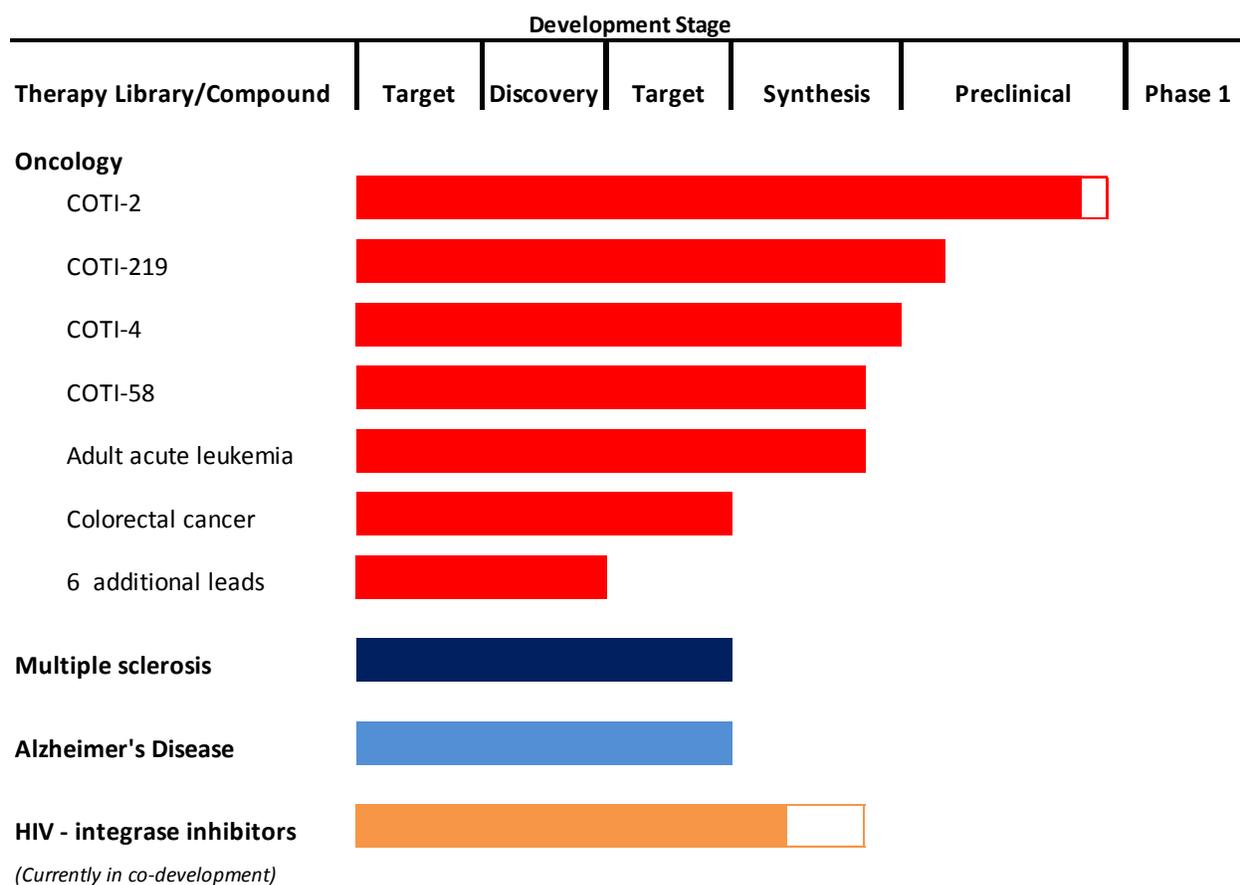
⁽²⁾ Weighted average shares outstanding calculated from May 1, 2009 to March 9, 2010.

Operational Progress and Outlook – Q3-F’10

Product Development

The Company continued to make progress in developing its drug candidate pipeline during Q3-F’10. Figure 1 highlights the development status of specific compounds and libraries with the outlined area shown for COTI-2 and for HIV – Integrase Inhibitors indicating progress made during the quarter ending January 31, 2010.

Figure 1: COTI Product Development Pipeline at March 8, 2010



COTI-2

During Q3-F’10, Company representatives continued to foster relationships with pharmaceutical organizations regarding a prospective licensing agreement for COTI-2. Initiatives targeted at early stage drug development pharmaceutical companies, for both co-development and licensing partnerships during Q3-F’10 have been well received and discussions are ongoing. To bolster and intensify licensing efforts, the Company announced on November 12, 2009 that Dr. Linda Pullan of Pullan Consulting had been engaged to assist in obtaining a licensing deal for COTI-2. The Company further strengthened its licensing efforts by carrying out additional animal experiments and laboratory work. Test results for COTI-2 were highlighted in press releases during the quarter as set out in Table 7 below.

Table 7: Quarterly Press Releases on COTI-2 Test Results

	Dissemination Date	Announcement
1	Dec 9/09	Oral COTI-2 is effective as a single agent and in combination with Gemcitabine in an animal model of human pancreatic cancer
2	Jan 20/10	Oral COTI-2 is effective in a second animal model of human pancreatic cancer as a single agent and in combination with Abraxane®

These are important results adding to the impressive data set of COTI-2 that has shown efficacy against multiple cancers and low toxicity. These results are also significant in supporting the new thinking for drug combinations in cancer treatment, as many leading oncology experts believe it is unrealistic for a single agent to be dramatically active in a broad population of cancer patients.

On January 12, 2010, the Company announced a partnership with TGen Drug Development (TD2) to obtain clinical trial approval for COTI-2. TD2 will work with the Company to complete the Investigational New Drug (IND) enabling research necessary to gain clinical trial approval as early as the first quarter of calendar 2011.

COTI-219

No new experiments were conducted during Q3-F'10 as experiments designed to determine the mechanism of action of COTI-219 were put on hold pending available financing.

COTI-4 (and analogs)

No new experiments were conducted during Q3-F'10 pending available financing.

Adult Acute Leukemia (AAL)

The AAL project is based upon patents received by COTI in Europe for three tyrosine kinase inhibitor scaffolds. Tyrosine kinase mutations have been identified as common factors in many cancers and may specifically promote uncontrolled white blood cell proliferation common in leukemia. In September 2009, the Company received United States patent approval for one of the three compounds and continues to actively seeking a licensing or co-development partner for these compounds. During Q3-F'10, the Company completed its final proposal for financing support to develop these compounds with the National Research Council's Industrial Research Assistance Program. The availability and amount of funding will not be known until the latter part of March 2010.

Colorectal Cancer

There was no development of this library during Q3-F'10 as resources, both time and money, were focused on other initiatives.

Multiple Sclerosis

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

Alzheimer's Disease

This library consists of six dual secretase inhibitors on three different scaffolds that are ready for synthesis and preclinical evaluation. There was no further development of this library during Q3-F'10 as resources, both time and money, were focused on other initiatives.

Collaborations and Co-Development Projects

(i) HIV Integrase Co-development

Work on synthesizing six HIV-1 integrase inhibitor compounds under a co-development agreement with a major pharmaceutical company continued during Q3-F'10. Compound purification is currently in progress and will be completed during Q4-F'10. The compounds will then be delivered to the major pharmaceutical company and they will manage, conduct and fund agreed upon preliminary preclinical experiments as part of their evaluation of these compounds. These experiments are expected to take six months to complete from the date of compound delivery. Once the final experiments have been completed and the results have been received by COTI, the 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 the lead discovery collaboration strategy implemented to date in pilot project agreements, the Company continues to carry out a targeted business development campaign to global pharmaceutical and biotechnology organizations in order to market the benefits of working with COTI on lead discovery collaborations. Discussions with multiple prospective customers are on-going.

Industry and Economic Factors Affecting Performance

The biotechnology industry is generally regarded as high risk given the uncertain nature of developing drug candidates. COTI operates in the discovery stage of the drug development cycle, which is the initial preclinical segment of the cycle. On the other hand, success in this area can be highly rewarding. The realization of COTI's long-term potential is dependent upon the successful development and commercialization of molecule profiling services and drug candidates. The major industry and economic risk factors affecting realization of this potential are highlighted in the annual MD&A and remain substantially unchanged from this analysis during Q3-F'10.

Changes in Accounting Policies including Initial Adoption

(i) Adopted in 2010

The Canadian Institute of Chartered Accountants issued three new accounting standards that apply to the Company for its fiscal 2010 financial reporting and these were adopted in Q1-F'10. The impact of these accounting policies on the Company's current business was not material. These policies are described below.

(a) Goodwill and intangible assets:

Section 3064, "Goodwill and Intangible Assets", replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The Company does not have goodwill recorded on its books and there was no impact to the recognition, measurement and disclosure standards for intangible assets for the Company except that computer software not integral to the operating system of the Company's computers was reclassified on the balance sheet from equipment to intangible assets.

(b) International financial reporting standards (IFRS):

Based upon the decision of the Accounting Standards Board that Canadian generally accepted accounting principles for publicly accountable enterprises would converge with IFRS effective in calendar year 2011, the Company has commenced the process to transition from Canadian GAAP to IFRS. The transition process plan includes 3 phases. The first phase, the diagnostic phase, was completed in FYE 2009. During this phase, the Company prepared high-level diagnostic analyses of key financial statement components expected to be impacted upon transition to IFRS. As part of this process, the Company identified key data requirements and process modifications that would be required before transition could occur.

During Q1-F'10, the Company entered the development phase that involves more detailed analyses of the impact of IFRS on key financial statement components and focuses on implementation differences and issue resolution. Activities in this phase continued during Q3-F'10 as management worked at finalizing financial statement component evaluations (CEs) and making decisions on accounting policy options. The development phase will conclude with the preparation of a proforma set of financial statements prepared in accordance with IFRS. Accounting policies compliant with IFRS will also be approved and entrenched in the financial reporting system. The Company estimates that at January 31, 2010 it has completed draft component evaluations for 95% of the accounting standards applicable to the Company. The Company anticipates completing the CEs by the end of the fourth quarter of fiscal 2010.

In Q3-F'10, the Company finalized its component evaluation for equipment. The impact of the transition to IFRS is expected to be limited as accounting policy changes will not be required upon transition nor are any transitional adjustments anticipated. The Company has elected to measure its equipment using

a cost model rather than using a revaluation model based on fair value. Financial statement disclosure for equipment will increase upon adoption of IFRS, with the most notable impact being detailed reconciliations between opening and closing cost and accumulated amortization. Existing accounting processes are deemed sufficient to capture any additional disclosure information required therefore modifications to existing accounting applications are not necessary.

During the fourth quarter of fiscal 2010, the Company expects to complete model financial statement disclosures that will identify the type of information and the level of detail the Company will disclose under IFRS, develop processes to derive the 2011 opening balance sheet under IFRS and build any processes necessary to create 2010 IFRS compliant financial information for comparative purposes.

The Audit Committee of the Board provides governance oversight and receives regular progress reports on the advancement of the conversion to IFRS. In addition, the Company has engaged a public accounting firm to assist with project management and to provide technical accounting advice on the interpretation and application of IFRS.

The Company is also actively monitoring the activities of the AcSB and the International Accounting Standards Board (IASB) for any new accounting standards they might issue leading up to the conversion. The Company will modify its project plan to incorporate new accounting requirements as they are issued.

The detailed project plan and the expected timing of key activities identified above may change prior to the IFRS conversion date due to the issuance of new accounting standards or amendments to existing accounting standards, changes in regulation or economic conditions or other factors.

(c) General standards of financial statement presentation:

Section 1400, "General Standards of Financial Statement Presentation" was amended to require disclosure of material uncertainties that cast significant doubt as to an entity's ability to continue as a going concern. It requires that financial statements be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. While management is aware that additional current financing is necessary to continue development of its compounds it believes the going concern assumption remains applicable based upon a number of considerations including:

- management's plans to obtain additional financing;
- a history of being successful in obtaining financing when needed;
- the continued promising scientific development of its compounds with primary emphasis on COTI-2 and an extremely focused effort to obtain a licensing agreement; and,
- the ability to extend the Company's operating life through the next 12 months through the management of discretionary and operational spending.

(ii) To be adopted in 2011

In June 2009, Section 3862, “Financial Instruments - Disclosures” was amended to include additional disclosure requirements about fair value measurements and to enhance liquidity risk disclosure requirements. For the Company, this Section is effective for annual financial statements ending after September 30, 2009 so for the Company’s fiscal year ending April 30, 2010. This new standard is expected to have minimal impact on the financial statements.