Critical Outcome Technologies Inc.

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

Fiscal 2009 – First Quarter ended July 31, 2008

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Critical Outcome Technologies Inc. ("COTI" or the "Company") for the quarter ended July 31, 2008, and have been prepared with all information available up to and including September 28, 2008. This management discussion and analysis (MD&A) is intended to assist in understanding the dynamics of the Company's business and the key factors underlying its financial results. This analysis should be read in conjunction with the Company's interim financial statements of July 31, 2008 and the audited financial statements and notes thereto for the year ended April 30, 2008. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly interim reports, the annual audited financial statements and additional supplementary information concerning the Company can be found on SEDAR at www.sedar.com.

Forward-looking Statements

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

The Company

COTI is a reporting issuer, based in London, Ontario, resulting from the amalgamation on October 13, 2006 of Aviator Petroleum Corp. (Aviator), a public company listed on the TSX Venture Exchange ("TSXV") under the symbol AVC, and Critical Outcome Technologies Inc., a private company, under the provisions of the Business Corporations Act (Ontario). The amalgamation constituted the qualifying transaction of Aviator pursuant to the policies of the TSXV. The amalgamated company adopted the name Critical Outcome Technologies Inc. and is listed on the TSX Venture Exchange ("TSXV") under the symbol COT.

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

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On May 1, 2008, the Company amalgamated with this wholly owned subsidiary under the laws of 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 dramatically reduce the timeline and cost of getting new drug therapies to market.

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

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

In addition to its targeted library pipeline the Company may also take particularly promising individual molecules forward beyond the library development stage to preclinical and potentially clinical trials. These molecules would follow the same initial development process and approach as the library molecules except the process would involve additional preclinical testing (for example, requirements associated with an investigational new drug application (IND filing) in the United States or a new drug submission (NDS) in Canada) and clinical human studies (Phase 1 only). 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, for which it continues to plan, based on the positive preclinical results achieved from COTI-2, its lead cancer molecule for small cell lung cancer and other cancers.

Amalgamation with DDP Therapeutics

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

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

Results of Operations

For the three month period ended July 31, 2008 (Q1-2009), the Company reported a net loss of $(858,771) or $(0.02) per common share compared to a net loss of $(500,458) or $(0.01) per common share in Q1-2008. This increased loss of $358,313 resulted from four main sources; increased stock-based compensation of $72,212, increased research and product development of $114,325, amortization of the SCLC molecules acquired in fiscal 2008 of $97,224 and increased corporate governance costs of $52,054.

Revenues

There were no operating revenues recorded in either Q1-2009 or Q1-2008.

The Company earned $39,533 in interest income on its cash balances in Q1-2009 compared to $24,216 in Q1-2008. This increase of $15,317 reflects the higher cash, cash equivalent and short-term investment balances held by the Company (see Table 1) during the current quarter compared to Q1-2008.

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

	Q1-2009	Q1-2008
Cash	253,171	425,545
Cash equivalent	1,463,712	2,500,000
Short-term investments	4,136,832	-
Total	5,853,715	2,925,545

Operating Expenses

Operating expenses increased from $524,674 for Q1-2008 to $898,304 for Q1-2009, an increase of $373,630. Four expense items as set out in Table 2 accounted for $ 336,315 of this change or 90% of the total expense increase.

1. The research and product development expense increase reflects increased preclinical testing of $70,452, and synthesis costs of $61,885, related to COTI-2, 4 and 219 compared to $18,889 in synthesis costs related to multiple sclerosis molecules in Q1-2008.

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Table 2: Major Expense Items

Expense	Q1-2009	Q1-2008	Change	Chg as a % of Total
Research and product development [(1)]	$ 133,214	$ 18,889	$ 114,325	30.6%
Amortization of molecules	97,224	-	97,224	26.0%
Stock-based compensation	232,621	159,909	72,712	19.5%
Corporate governance	56,148	4,094	52,054	13.9%
	519,207	182,892	336,315	90.0%
Other expenses	379,097	341,782	37,315	10.0%
Total	$ 898,304	$ 524,674	$ 373,630	100.0%

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

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

3. The Company completed a detailed study of Board compensation in April 2008 and subsequent to the April 30, 2008 year end amended its board compensation plan to provide a combination of share options and cash meeting fees based upon comparable peer companies. The increased stock-based compensation in Q1-2009 reflects the granting of 335,678 stock options to the Board of Directors in June 2008 as compensation for their service for fiscal 2008. In July 2008, 100,000 stock options were granted to an employee. This compares to 230,000 stock options granted in the comparable quarter of fiscal 2008 to a new Board member and the hiring of a Chief Operating Officer.

4. Increased corporate governance costs reflect directors' meeting fees paid or accrued for $33,000 with no similar cost in Q1-2008 since in Q1-2008 the directors were compensated by stock options only. The balance of the increase reflects the timing of preparation costs associated with the annual general meeting (AGM) between the two quarters.

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Two Year Operational Results Summary by Quarter

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

Table 3: Two Year Summary of Quarterly Results
(Unaudited)

FYE 2009	Q1 31-Jul	Q2 31-Oct	Q3 31-Jan	Q4 30-Apr	Total
Revenues	$ -				$ -
Total loss before other income	(898,304)				(898,304)
Other income	39,533				39,533
Total net loss	$ (858,771)				($858,771)
Net loss per share	$ (0.02)				$ (0.02)

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

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

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

Liquidity and Capital Resources

At Q1-2009, the Company had cash, cash equivalents and short-term investments of $5,853,715 compared to $2,925,545 at Q1-2008 for an increase of $2,928,170 as summarized in Table 1. Since April 30, 2008, the balance of cash, cash equivalents and short-term investments declined

by $359,994 from $6,213,709. Operating activities used cash of $471,887 as noted by the increase in operating expenses above.

Financing activities during Q1-2009 consisted of 1,041,125 warrants exercised and common shares issued for gross proceeds of $626,950. At September 28, 2008, the Company had 130,902 outstanding warrants, which if exercised prior to expiry, could generate additional gross proceeds to the Company of $71,327. Offsetting this cash raise during Q1-2009 was the payment of $353,247 on July 31, 2008 for a maturing promissory note due to Whippoorwill Holdings Limited.

The Company's working capital at Q1-2009 was $5,654,947 compared to $5,591,142 at April 30, 2008. The Company's current assets decreased to $6,110,919 on July 31, 2008 from $6,380,528 on April 30, 2008. This decrease of $269,609 reflects the lower balance of cash, cash equivalents and short-term investments. Current liabilities decreased $333,414 to $455,972 at Q1-2009 from $789,386 at April 30, 2008. This decrease reflects a $353,800 decrease in amounts due to shareholders primarily resulting from the payment of the promissory note taken back on the DDP purchase by Whippoorwill Holdings Limited, offset by a $25,650 increase in accounts payable.

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

Table 4: Contractual Obligations
for the quarter ended July 31, 2008

Obligation	Total	2009	2010	2011
Capital lease	$ 16,023	$ 14,760	$ 1,263	$ -
Premises rent [(1)]	31,150	28,035	3,115	-
Total contractual obligations	$ 47,173	$ 42,795	$ 4,378	$ -

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

Based upon its current cash, cash equivalents and short-term investments, management believes it has sufficient cash resources to carry out its operations for the next 18 months at planned operating levels. The Company has considerable discretion in determining its research and development spending and could extend this time line by deferring such spending. For example, the Phase 1B clinical trial could be delayed or a co-development partner could be identified. Cash flows from a revenue event such as a licencing deal or collaboration would also have a positive impact on the Company's cash resources. 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.

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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 Q1-2009, are set out in Table 5 below. All transactions were incurred and recorded at the exchange amounts agreed to by the parties.

As highlighted in notes 9 and 10 of the July 31, 2008 financial statements, there were interest bearing notes owing to certain shareholders of $49,033 and $20,000 to a related party. All notes were maintained on a current basis throughout Q1-2009.

Table 5: Related Party Transactions

Name	Relationship	Business Purpose	Amount
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
		Repaid the 5% promissory note due on July 31, 2008 which was issued to the COTI on the purchase of DDP.	353,247
		Interest paid during the quarter on the 5% promissory note	$ 5,830

[(1)] Wholly owned company of COTI's CEO, Mr. John Drake.

[(2)] Mr. John Drake is a shareholder, director and officer of the Company. No compensation is paid for his CEO role as an employee of the Company.

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Outstanding Share Data

Outstanding share information as at the close of business September 28, 2008 is set out in Table 6.

Table 6: Outstanding Share Data

		Outstanding	Expiry Date
Common shares			
Authorized - unlimited			
Issued		46,696,534	
Fully diluted [(1)]		48,728,114	
Weighted average outstanding [(2)]		46,184,200	
Common share warrants			
$0.40 agent warrants		67,680	Oct 12/08
$0.70 warrants		63,222	Dec 13/08 to Dec 31/09
		130,902	
Common share options			
	$0.64	1,035,000	Jan 11/12
	$0.70	50,000	Jan 14/12
	$1.34	150,000	Mar 25/12
	$1.00	130,000	April 30/12
	$2.00	100,000	Oct 8/12
	$0.75	335,678	June 9/13
	$1.20	100,000	July 15/13
		1,900,678	

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

(2) Weighted average shares outstanding calculated from May 1, 2008 to September 28, 2008.

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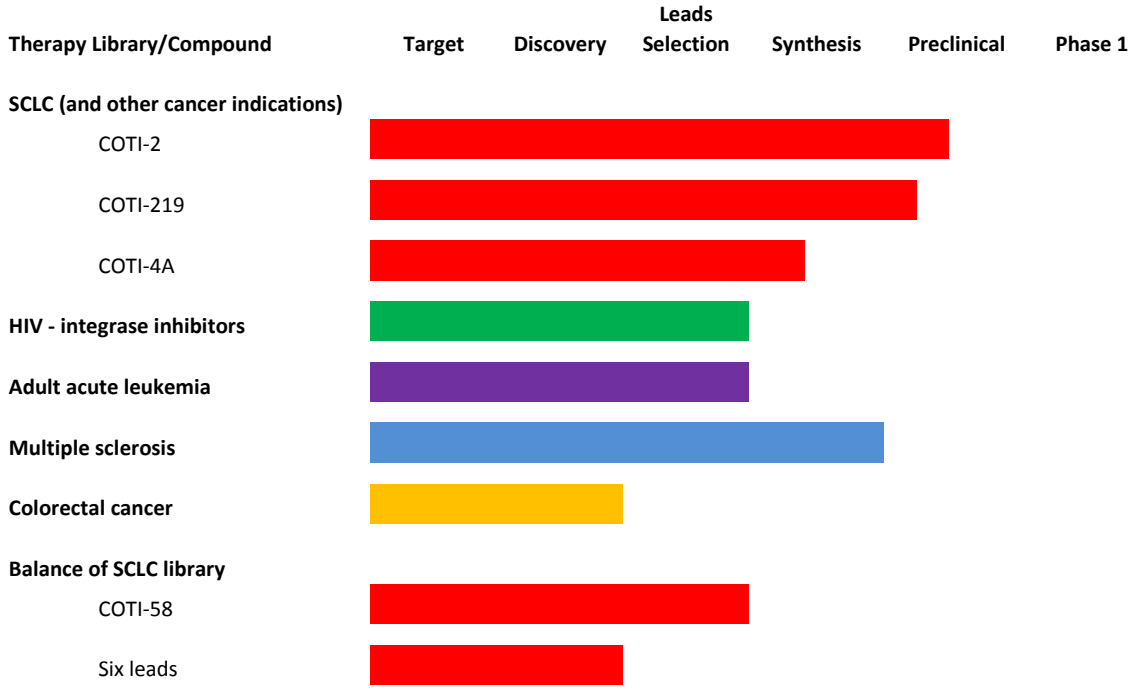
Operational Progress and Future Outlook

During Q1-2009, the Company made good progress in developing its molecule libraries. 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 September 26, 2008



COTI-2

In June 2008, Company representatives attended BIO 2008 in San Diego, CA with the objectives of engaging decision makers from several major pharmaceutical organizations in a review of its data on COTI-2 (including its novel and potentially first-in-class mechanism of action (MOA)) and exploring licensing opportunities regarding its ongoing development with them. Subsequent to these meetings, the Company is pursuing additional in vivo experiments related to the pharmacokinetic profile of this promising drug candidate as well as its optimal drug formulation in order to maximize the value of COTI-2 for a potential licensing agreement. The Company will continue to evaluate revenue options pertaining to a licensing arrangement for COTI-2 in fiscal 2009, as further pre-clinical test results enhance the opportunity for developing the compound to drug status.

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COTI-219

Experiments designed to determine the MOA of COTI-219 continued during Q1-2009. These experiments will assist Management with decisions regarding additional testing required to advance this compound and to qualify prospective partners.

COTI-4

A derivative of the original COTI-4 scaffold, COTI4-A, was synthesized during Q1-2009. After additional patent work is completed this molecule will move through preclinical testing during the balance of the year.

Multiple Sclerosis

In Q4-2008, COTI encountered a delay in the development of its Multiple Sclerosis program in the form of a potential intellectual property overlap with another organization. Management is delaying its decision related to advancing 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 the competing patent claim will be available for review. Multiple Sclerosis continues to be an important project for the Company and is likely to proceed when the intellectual property concern has been resolved.

HIV Integrase

During Q1-2009 COTI held discussions with several firms regarding potential collaborations involving HIV Integrase Inhibitor compounds. These integrase inhibitors are targeted to interfere with the integrase enzyme system, which is responsible for combining the viral DNA with human DNA. On September 24, 2008, COTI announced an agreement with a major pharmaceutical company to advance up to six HIV-1 integrase inhibitor drug candidates identified using its CHEMSAS® drug discovery process.

Under the agreement, COTI will retain all intellectual property ownership of these drug candidates, including any data resulting from preclinical experiments. COTI will manage the synthetic chemistry process associated with the selected drug candidates with a third party contractor. The cost associated with synthesis will be shared between the two parties.

Upon completion of synthesis, the major pharmaceutical company will manage, conduct and fund agreed upon preliminary preclinical experiments as part of its evaluation of COTI's compounds. Once the final experiments have been completed and the results have been received by COTI, the major pharmaceutical company will have an exclusive period to negotiate a licensing agreement with COTI for the select compounds. If an agreement is not reached within this period, COTI will be able to engage other potential partners for its HIV-1 integrase inhibitor program. Management believes that this is a strategic and cost effective initiative with the additional benefit of developing a relationship with another global pharmaceutical company.

Adult Acute Leukemia

During Q1-2009, emphasis was placed on identifying co-development partners for the Adult Acute Leukemia (AAL) project. The Company received two European patents for three tyrosine kinase inhibitor compounds in 2007. Tyrosine kinase mutations have been identified as common factors in many cancers and may specifically promote uncontrolled white blood cell proliferation common in leukemia. The Company plans to meet with prospective development or licensing partners at BIO Europe to be held at Hamburg, Germany in November 2008.

Collaboration Projects

The Company successfully completed the initial phase of the project and presented its report to Merck Serono in Darmstadt, Germany in May 2008. During Q1-2009 Merck Serono selected six drug candidates to advance to synthesis. The synthesis of these compounds is expected to be completed by early December 2008. Future revenues from this project will be earned and invoiced based upon achievement of specific preclinical testing milestones to be completed by Merck Serono on the compounds identified. The timing of the first series of experiments is expected to commence shortly after completion of synthesis.

Building on a lead discovery collaboration strategy similar in design to the Company's pilot project agreement with Merck Serono, the Company organized and carried out targeted business development trips to Western Europe, Boston and San Diego in order to market the benefits of working with COTI on lead discovery collaborations. Potential collaborative partners were identified and the Company continues to discuss these opportunities with prospective collaborators.

Changes in Accounting Policies including Adoption

Adopted in 2009

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

a) Section 1535 "Capital Disclosures"

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

b) Section 3862 "Financial Instruments – Disclosures"

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

c) Section 3863 "Financial Instruments – Presentation"

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

To be Adopted in 2010

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

(a) International Financial Reporting Standards (IFRS)

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

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on May 1, 2010. As a result, the Company is developing a plan to convert its financial statements to IFRS. The Company will be utilizing the services of external national accounting firms to assist with this task given the limited staff available in the Company. The Company will provided training as necessary to its key employees and will monitor the impact of

the transition on its business practices, systems and internal controls over financial reporting over the period leading up to conversion.

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

Section 3064 "Goodwill and Intangible Assets"

This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". For the Company, this Section is effective for interim and annual financial statements beginning on May 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible assets". The Corporation is currently evaluating the impact of this new standard on its intangible assets notably the acquired SCLC molecules and its current granted and in progress patents.